

STATE OF NEW YORK

SPECIAL REPORT

OF THE

STATE TAX COMMISSION

No. 14

**BUDGETARY METHODS IN NATIONAL AND STATE
GOVERNMENTS**

By

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AUTHOR'S PREFACE

This study was undertaken as an investigation of the problem of balancing budgets, one that first received widespread interest in the United States during the depression. The development of this problem led the writer to seek descriptive surveys of budgetary systems in relation to governmental finances. The existing surveys, where available, did not take into account significant recent developments. Neither did they as a rule emphasize the aspects that the economic crisis was bringing to the foreground.

As a result of this conspicuous gap in American literature on fiscal science the writer endeavored to prepare an analysis of budgetary systems. The report being prepared under the sponsorship of the State of New York, the particular characteristics and background of this State's problem suggested the desirability of studying the systems of the federal government of the United States and of other national jurisdictions, in addition to those of other American states. Budgetary methods in the minor civil divisions were usually found to offer problems of a different character though the magnitude of some city finances in many cases exceeds that of the states in which the urban centers are located.

The descriptive surveys obtained as a result of the writer's efforts to analyze representative national and state budgetary systems form the main subject matter of this report. While a critical approach has been maintained throughout, suggestions for reform are restricted to the American states in general and to New York in particular.

In collecting the information herein presented the writer has endeavored wherever possible to obtain, from local authorities and observers, descriptions of actual practices and accomplishments as well as of legal requirements. Published sources have also been studied towards this end of gaining a knowledge of the working of the methods and procedures prescribed by laws. It has, not, however, been possible to obtain all the desired data regarding actual practices without field surveys of the far-flung jurisdictions and without a scrutiny of documents, forms, records, and reports for which a staff would have been necessary. Therefore, in some jurisdictions, both national and state, the discussion is based almost exclusively on the legal framework of the system. It is of interest to note that the systems are in many instances such that even painstaking observance of the letter and spirit of the law on the part of efficient and sincere officials could not result in adequate performance. It will not be difficult for those interested in the problems of any particular government to supply the missing conclusions that must be based on a comparison of actual and required methods.

In developing his definition of the scope of budgetary systems and in distributing the emphasis among the various aspects of the national and state procedures which are surveyed, the writer has kept in mind the originally conceived problem of balancing budgets. The result has been a favoring of questions linked to public finance. There are two introductory chapters which treat exclusively of the fiscal policies and systems of the American states and which present significant budgetary implications.

There has consequently been a subordination or omission of some features which are commonly stressed in the public law or administrative approaches to budgetary studies. For example, questions of legislative processes or of personnel selection and training are only casually mentioned. As is explained in Chapter XLII, problems dealing with accounting and auditing are not comprehensively discussed in this report, though these topics are traditionally studied as elements of the execution stage of budgetary procedures. The stress on post-voting expenditure revision (Part V; Execution of the Budget Program) is, however, one which is not usually found.

The subordination or omission of any features should not be interpreted as indicative of any lessened significance. As is the case with the problem of accounting techniques, it may be assumed without question that the development of efficient methods is essential for any sound budgetary system.

Conclusions which are drawn in connection with each discussed phase of the budgetary problem point to the fact that only on rare occasions do the American states offer legal frameworks and standards of practice which measure up to levels noted in some national governments. The writer believes that the economic and social incidence of faulty mechanisms and legal bases are such that reform is urgently needed. This report attempts to indicate the direction which the changes in the individual American states should take.

Improvements which can be indicated for New York are not as sorely needed as are those in most other states. Nevertheless there are several specific recommendations made which can profitably be considered in the immediate future. The executive and legislative branches of the State's government as well as the leading fiscal scientists of the community have recently shown that the inadequacies of New York's budgetary system have been fully recognized. The outlook for further improving the already high standards of the State's practices is bright.

Many people have assisted the writer in the preparation of this report. He wishes to express his gratitude to Professor Edwin R. A. Seligman who first directed his attention to public finance. He is indebted to Professor Robert M. Haig for suggesting the topic studied and for supervising the work during its progress. He wishes to acknowledge the invaluable aid rendered by Professor Carl Shoup in reading the manuscript and offering helpful criticisms and suggestions. The members and staff of the New York State Tax Commission and the Director and staff of the Bureau of Research and Statistics have assisted in every way.

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The author takes full responsibility for all expressions of opinion and for any errors in fact or theory which may appear within this report.

J. W. S.

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INTRODUCTION

CHAPTER I

THE PROBLEM OF BUDGETARY SYSTEMS

Budgetary Systems

It is difficult to define the term *budgetary system*. In popular and scientific approaches (the term *budget* designates a printed document, an instrument essential to democratic governments) a political program, (a statement of expenditures and revenues), a legislative measure, a speech delivered by a government executive to a legislature, or (a planned financial program.) In the literature of public finance the term is used to describe the various features of the process of planning and controlling elements of both the fiscal system and the system of financial administration. Outside the social sciences the term is used to describe any planned expenditure program, particularly a plan of family or industrial finances. An interesting development in recent years has been the acceptance of the term as connoting economy or retrenchment. The popular approval of this interpretation can be found in the "budget shops" of fashionable department stores. In foreign languages we find the link to economy implied in the relation of the term to household affairs. The German *haushalt* and the Italian *azienda* can be easily linked to the domestic finances of the sovereign, which were at times synonymous with the public finances.

For purposes of this study no specific and restricted definition of budget or budgetary systems is employed. It is possible that many financial and fiscal aspects of budgeting are considered which do not fall within the traditional scope of the problem. This is perhaps a reflection on the paucity of fiscal approaches in the existing concepts of budget problems.

* Budgetary systems represent all the features of governmental practices which are related to the administration of the public finances. (Budgetary systems are concerned with the coördination of the public finances into a financial plan.) The legal provisions, traditions, and procedures which are found in connection with the continuous process of formulating, voting, and executing a financial program are naturally the main subjects with which budgetary problems are concerned. The study of budgetary systems must, therefore, treat with the manner in which the various elements of the public finances are periodically linked together in a financial plan. The manner in which the various items are arranged and related to each other is also part of the subject matter of budgetary problems. (The common interest in the equilibrium of governmental income and outgo broadens the scope of budgetary systems to include policies of coördinating expenditures

and financing media.)¹ Parts I and II of this study deal primarily with the budget programs and budgeting practices as related to the financial plans of governments.

The budgetary system describes a continuous process of formulating, adopting, executing, and controlling the fiscal policies of governments. In connection with the procedural aspects which are analyzed in Parts III, IV, and V, a wide variety of problems are covered. The subject matter covers the range of the social sciences dealing with economic and social interpretations, fiscal science, political science, and multiple phases of governmental administration. Such considerations as fiscal policies, fiscal years, governmental agencies and the allocation of their responsibilities and powers, temporal relations, methods of forecasting, and budget documents are related to the preparatory stages of budgetary processes. In connection with the adoption or voting stage, which is of importance in democratic governments, the various aspects of legislative powers, organization, and processes are surveyed, so far as they affect budgetary legislation. The execution stage treats with the administration of a promulgated financial program. The distribution of the control of spending powers and duties among the several branches of government is stressed.

It can be readily seen that (in addition to levying taxes, making expenditures, and issuing and retiring debts, there are innumerable other features which comprise the financial processes of a given jurisdiction.) Depending on the choice of an economic, fiscal, political, or administrative approach to budgetary problems, the range of subjects and interrelations which may be analyzed is infinite. Arbitrarily, in this study only economic and fiscal features are emphasized together with the problem of the relation between fiscal policies and fiscal equilibrium. Budgeting as an aspect of the administrative machinery of government processes is not stressed though the reduced emphasis accorded them is no indication of lesser importance. Budgetary systems are instruments of multiple and varied usage; they can even play an important role in helping to preserve democratic institutions.

National and State Budgetary Systems

The analysis of the budgetary systems of various national governments, including those of the United States, Great Britain and the other members of the British Empire, and the leading continental powers, serves several purposes. First, comprehensive descriptive and analytical surveys, approached primarily from the point of view of fiscal problems, should prove of some interest. Secondly, a vast body of critical and theoretical material is related only to national budgetary systems and cannot be appreciated or understood without references to the provisions and procedures upon which the discussions are based. Thirdly, the standards of budgetary systems in the American states, while varied, are only of limited usefulness as far as criteria for improving budget-

ary systems such as that of New York are concerned. In terms of evaluating the need for, and the direction of, reforms it is necessary to go beyond the systems and their history. The budgetary system of the United States federal government is in many respects praiseworthy but in many others it possesses disadvantages similar to those of some state jurisdictions. Great Britain, which has a valuable budgetary tradition of long standing, and France and Germany, which have contributed much to the study of budgetary problems, cannot be neglected. It should be borne in mind, however, that there are distinctive budgetary needs and problems faced by national and by state jurisdictions. (It will not be possible to treat all budgetary systems on the same plan.)

The budgetary systems of local jurisdictions and of intermediate subdivisions in other nations have not been surveyed. With respect to localities in the United States, the limited independence which they enjoy in fiscal matters and their extreme reliance on property taxes makes an analysis of their budgetary problems of limited usefulness, as far as the states are concerned. Subdivisions such as the Canadian provinces or the Swiss cantons are politically similar to the states. Shortage of available data and interpretations would have made a study of these jurisdictions difficult to prepare. (By virtue of the scope of its public finances and the characteristics of its revenue system New York State's problems can be related, with qualifications, to those of national governments.)

The Development of State Budgetary Systems

The student interested in the analysis and reform of state budgetary systems in the United States cannot fail to benefit from a study of their growth and development. (The reform movement, which has been an outstanding element of the study of governmental problems in the United States since 1910, has left in its wake a valuable body of literature) and much of the procedures and provisions which are found today. Studies of state budgetary problems have been little concerned with contemporary economic forces. It is unfortunate that much of the historical development has not left the states with systems which are better adjusted to modern needs.

Several outstanding publications will assist in reviewing the background of the state budgetary systems discussed in this report. Professor Agger's interesting study gives a clear picture of the conditions which were found at the turn of the century prior to the initiation of the reform movement.¹ Some of the many publications which were issued during the period of reform and, in many instances in conjunction with the problems of particular jurisdictions are of interest. The publications of Fitzpatrick²

¹ Eugene E. Agger, *The Budget in the American Commonwealth* (New York, 1907), *passim*.

² Edward A. Fitzpatrick, *Budget Making in a Democracy* (New York, 1919), *passim*.

and Willoughby³ are the most important studies by individual authors. The studies appearing in the *Annals* of the American Academy of Political and Social Science⁴ and in the publications of the New York Bureau of Municipal Research⁵ are also of considerable value.

Table I, showing the dates of the adoption and revisions of the state budgetary systems for the period 1914-1935, inclusive, indicates that by the end of the second decade of the twentieth century the first cycle of the reform wave had been completed.) Some states, such as New York, which adopted statutory provisions dealing with a budgetary system in 1921 and made a complete revision embodied in a constitutional amendment in 1927, had already made one or more comprehensive revisions. During this period no state failed to establish either a statutory or constitutional basis for a budgetary system. Buck's comprehensive study, published in 1929, enables the reader to study the fiscal systems with which the states entered the depression and includes a summary of the developments during the reform period.⁶ Many surveys of state government administration, made by the experts of the Brookings Institution and the Institute of Public Administration and other organizations and individuals, offer valuable case studies of the historical developments in the individual commonwealths.

This study attempts to treat with the many comprehensive and minor or partial revisions which have been made since the beginning of the depression. (Efforts to readjust the state budgetary practices reveal how important the systems can be during times of crises.) It should not be anticipated that the reforms were all, or even in more than isolated cases, in what the writer believes to be the right direction. The perpetuation of the older defects and the initiation of new ones stand out as one result of recent changes.

Revisions which reflect adjustments to immediate crises are not likely to be of lasting beneficial value. In connection with the history of budgetary and accounting reform a recent writer has aptly stated: ("In theory a reform in State administration, and especially in methods of budgeting and accountancy, can best be carried out when times are peaceful, and undoubtedly this would be the best procedure, but in practice, when times are quiet there is neither a strong demand nor a compelling case for such reform. As soon as times become more difficult for the State, the technical and practical deficiencies of budgeting and accountancy methods

³ W. F. Willoughby, *The Movement for Budgetary Reform in the States* (New York, 1918), *passim*.

⁴ American Academy of Political and Social Science. The *Annals*, Vol. LXII, November 1915, *Public Budgets*; The *Annals*, Vol. CXIII, May 1924, *Competency and Economy in Public Expenditures*.

⁵ *Municipal Research*, Bulletins of the Bureau of Municipal Research, New York. Selected issues Nos. 57-93, dated 1915-1918, *passim*.

⁶ A. E. Buck, *Public Budgeting* (New York, 1929), hereafter cited as Buck I.

begin to show up. With growing difficulties, dangers increase too. But then it is usually too late for reform, and neither the law-maker nor practitioners and theorists can prevent failure."⁷)

If the states are to make their budgetary systems efficient instruments of control, they stand on the threshold of a second wave of change. There is no jurisdiction which cannot benefit from a radical revision of one or more major features of its budgetary system.

There are only six states—California, Maryland, Massachusetts, Missouri, New York, and West Virginia—which have incorporated basic provisions dealing with budgetary matters in the constitution by amendments. Maryland's adoption in 1918 of its basic legislation and Missouri's revision in 1932 represent the terminal points of this period of constitutional change. It should be noted that in every state some features of financial, administrative, or legislative processes are based on constitutional mandates, and that in many states the problem of amendment cannot be neglected. New York State's constitutional convention, which will convene in 1938, is an example of a periodic opportunity for review and change. Most states have statutory provisions controlling their budgetary practices. The question of change and opportunities for revision is vastly simplified. This advantage should not obscure the fact that the standards of budgetary practices and reforms are such that for many jurisdictions a constitutional basis can be recommended.

In the discussion of the actual practices in the various jurisdictions, it will at several points become clear that legal provisions are not always the controlling elements in budgetary practices. Through avoidance and evasion and a generally low standard of interpretation, a logically sound system can be rendered ineffective. There are no substitutes for a tradition of efficiency and ability; neither can laws compensate for the absence of honest and capable personnel. There is much that the states can do to improve their budgetary practices without requiring revisions of their budgetary legislation. The legal basis is only a component factor in the question of budgetary reform.

Study of Budgetary Problems

The study of budgeting, which has been referred to as "a welter of competing jurisdictions," reflects the many phases which this problem covers.) Budgetary studies are found in publications covering all the social sciences. In public finance the problem has had a varied career. The trend towards theoretical systematic approaches minimized the interest of writers in administrative problems. A concentration of interest on studies of taxation also aided the neglect of budgetary problems which were then and, in many quarters, still are believed to be concerned primarily

⁷ Kurt Heinig. "State Accountancy and its Historical Evolution—II," *The Accountant* (London), Dec. 28, 1935, p. 887.

TABLE I
DATES OF ADOPTION OF STATE BUDGETARY PROCEDURES

| STATES | 1914 | 1915 | 1916 | 1917 | 1918 | 1919 | 1920 | 1921 | 1922 | 1923 | 1924 | 1925 | 1926 | 1927 | 1928 | 1929 | 1930 | 1931 | 1932 | 1933 | 1934 | 1935 | STATES |
|----------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|----------------|
| Alabama | | | | | | b | | | | c | | | | e | | | | | s | | | | Alabama |
| Arizona | | | | | | | | | a | | | | | | | | | | | | | | Arizona |
| Arkansas | | | | | | | | b | a | | | | | | | | | | | | | | Arkansas |
| California | | | | | | | | | a | | | | | b | | | | | | | | | California |
| Colorado | | | | | | a | | | a | | | | | | | | | | | g | | | Colorado |
| Connecticut | | a | | | | b | | | | | | | | b | | | | | b | | | b | Connecticut |
| Delaware | | | | | | | | a | | | | | | | | | | | | | | | Delaware |
| Florida | | | | | | | | a | | | | | | | | | | | a | | b | | Florida |
| Georgia | | | | | a | | | | a | | | | | | | | | | a | | | | Georgia |
| Idaho | | | | | | b | | | | | | s | | | | | | | | | b | | Idaho |
| Illinois | | | | a | | | | | | | | | | | | | | | | | | | Illinois |
| Indiana | | | | | | b | | | | | | | a | | b | | | | | | b | | Indiana |
| Iowa | | a | | | | | | | | | | | | | | | | | | | o | | Iowa |
| Kansas | | | | a | | | | | | | | | c | | | | | | | | o | | Kansas |
| Kentucky | | a | | | a | | | | | | | | | a | | | | | | | | c | Kentucky |
| Louisiana | | a | | o | | | | | c | | | | | | | | | | | | | | Louisiana |
| Maine | | | | | | a | | | | | | | | | | | | | c | | | | Maine |
| Maryland | | | | s | | | | | | | | | | | | | | | | | | | Maryland |
| Massachusetts | | | | s | | a | | | | | | | | | | | | | | | | | Massachusetts |
| Michigan | | | | | | a | | | | | | | | | | | | | | | o | | Michigan |
| Minnesota | | | a | | | | | | b | | | | | | | | | | | | | b | Minnesota |
| Mississippi | | | | | | | | | | | | c | | | | | | | | | | | Mississippi |
| Missouri | | | | | a | | | | | | | | | | | | | | | a | | | Missouri |
| Montana | | | | | | a | | | | | | | | | | | | | | c | | | Montana |
| Nebraska | | | | | | | | | | | | | | | | | | | | | o | | Nebraska |
| Nevada | | a | | | | | | c | | | | | | | | | | | | | | | Nevada |
| New Hampshire | | | | | | a | | | | | | | | | | | | | | | | | New Hampshire |
| New Jersey | | | a | | | | | | e | | | | a | | | | | | | | b | | New Jersey |
| New Mexico | | | | | | | | | e | | | | | | | | | | | | | | New Mexico |
| New York | | | | | | | | | a | | | | | | c | | | | | | | | New York |
| North Carolina | | | | | | | | | | | | | | | | | | | | | | | North Carolina |
| North Dakota | | a | | | | | | | | | | | | | | | | | | | | | North Dakota |
| Ohio | | | | | | | | | | | | | | | | | | | | | | | Ohio |
| Oklahoma | | | | | | | | | | | | | | | | | | | | | | | Oklahoma |
| Oregon | | | | | | | | | | b | | | | | e | | | | | | | | Oregon |

NEW YORK STATE TAX COMMISSION

TABLE I—Continued

| | | | | | | | | | | | | | | | | | | | | | | | | |
|---------------------|--|--|--|---|--|---|---|---|---|--|--|--|--|--|--|--|--|--|--|--|--|--|--|----------------|
| Pennsylvania..... | | | | | | | | | a | | | | | | | | | | | | | | | Pennsylvania |
| Rhode Island..... | | | | | | | | | | | | | | | | | | | | | | | | Rhode Island |
| South Carolina..... | | | | | | | | | | | | | | | | | | | | | | | | South Carolina |
| South Dakota..... | | | | | | | | | | | | | | | | | | | | | | | | South Dakota |
| Tennessee..... | | | | a | | | | | e | | | | | | | | | | | | | | | Tennessee |
| Texas..... | | | | | | a | | | | | | | | | | | | | | | | | | Texas |
| Utah..... | | | | | | | a | | | | | | | | | | | | | | | | | Utah |
| Vermont..... | | | | | | | | | a | | | | | | | | | | | | | | | Vermont |
| Virginia..... | | | | | | | | b | | | | | | | | | | | | | | | | Virginia |
| Washington..... | | | | a | | | | | | | | | | | | | | | | | | | | Washington |
| West Virginia..... | | | | | | | | | | | | | | | | | | | | | | | | West Virginia |
| Wisconsin..... | | | | a | | | | | | | | | | | | | | | | | | | | Wisconsin |
| Wyoming..... | | | | | | | | | | | | | | | | | | | | | | | | Wyoming |

LEGEND:

- a: First adoption of comprehensive budgetary legislation during period under survey.
- b: Minor or partial revision.
- e: Comprehensive revision.
- I: Constitutional amendment.

with the control of expenditure.⁸ (The stress on fiscal systems and policies, their control and the period of dynamic finances since the post-war period, as well as the institutional approaches of public finance have restored the problem to a position of relative importance.)

An interest in the budgetary problems and the formulation of theories and budgetary principles appears to have been fostered by European literature on the subject. The concern over fiscal implications, a relatively new aspect in American budgetary studies, has been noted for some time in the writings of continental students of budgetary problems. Of these Allix⁹, Jèze¹⁰, and Neumark¹¹ are outstanding.

An interesting contribution which has been made to the study of budgetary problems is the formulation of budgetary principles. Although the principles may be questioned as axioms capable of universal application, they have great usefulness in descriptive and comparative studies.¹² The descriptive charts of national and state budgetary systems which are appended have been in part formulated in terms of these principles, as has the discussion in Parts I and II. The choice of principles and the emphasis on their interpretation assists in stressing the fiscal, political, and administrative phases of budgetary problems.

The writer has been fortunate in obtaining the collaboration and assistance of competent observers in almost all of the national and state jurisdictions whose budgetary systems are surveyed. Their assistance is specifically acknowledged in the text of the study.

In addition, publications covering certain budgetary problems of one or more jurisdictions have been used. Where available, budgetary and official documents have been studied in order to ascertain actual practices. References to specific statutory sources have been given wherever feasible. Omission of a legal citation has been made in cases where the material (and the legal citation) appears in the charts.¹³

Publications of a general character which deal with national budgetary practices are available to a greater extent than are

⁸ See p. 48.

⁹ Edgard Allix, *Traité Élémentaire de Science des Finances* (Paris 1931), *passim*.

¹⁰ Gaston Jèze, *Allgemeine Theorie des Budgets* (Tübingen, 1927), *passim*. (This study representing an authorized translation and revision by Fritz Neumark of Professor Jèze's *Theorie Générale du Budget* (Paris, 1922), will be cited hereafter as Jèze-Neumark.)

¹¹ Fritz Neumark, *Des Reichshaushaltplan—Ein Beitrag zur Lehre vom öffentlichen Haushalt* (Jena 1929), *passim*.

¹² The present writer has discussed budgetary principles in the study of budgetary problems in "Budgetary Principles," *Political Science Quarterly*, Vol. I, No. 2, June 1935, pp. 236-263, *passim*. (Hereafter cited as Budgetary Principles.)

¹³ The charts referred to are the summary surveys of the budgetary systems of national and state governments prepared by the writer. These are revised periodically and appear in successive issues of the *Tax Systems of the World* (published by the Commerce Clearing House, Chicago). A set of charts are made available with this study.

those for the states. In addition to the already mentioned works of Allix, Jèze, and Neumark, a recent study of Buck should be mentioned.¹⁴ Two series of publication by the League of Nations' financial experts have also been of value in noting procedure and in substituting for unavailable official documents.¹⁵

There does not appear to be any publication, other than Buck's already cited study of *Public Budgeting*, which covers the budgetary practices of more than one or two state jurisdictions.

Before the discussion of budgetary systems is begun, a brief survey of American state fiscal policies and systems will be presented. The analysis should indicate the significance of budgetary features in the governmental finances of these jurisdictions. Furthermore, the nature of the public finances should assist in pointing out significant budgetary problems. The limited scope of public debt operations and the variability of revenue yields, which imply special budgetary problems, are among the fiscal factors which are stressed.

¹⁴ A. E. Buck, *Budgets in Modern Governments of Today* (New York 1933), *passim*. (Hereafter cited as Buck II.)

¹⁵ There is available the recently published series of studies on the public finances of the various countries (League of Nations, *Public Finances, 1928-35*. (Geneva, 1936.) (The Series, consisting of a Preface and General Explanatory Note and an individual survey for each of 42 nations is hereafter cited as L. of N., Pub. Fin., 1928-35.) See also League of Nations Conference for the Reduction and Limitation of Armaments; National Defence Expenditure Commission; *Report of the Technical Commission*, Vol. II, Geneva 1933 and Vol. III, Geneva 1935 (hereafter cited as L. of N. Tech. Comm., Vol. II or III).

CHAPTER II

THE PROBLEM OF FISCAL POLICY

The Development of Modern Public Finances

There are two main reasons why a consideration of the nature and control of fiscal systems is important to the economic, political, and social life of modern governments.

(The first is the growth, measured in both absolute and relative magnitudes, of the public finances in the economies of the world) The development has taken place under different political systems and economic philosophies, and in various geographic regions.

The public finances of the United States mirror the development which can be observed elsewhere. In 1936 it was estimated that federal outlays were $7\frac{1}{4}$ billion dollars, those of the states $21\frac{1}{4}$ billions, and those of the localities $5\frac{1}{2}$ billions. Increases can best be noted in connection with the fiscal systems of the national government although the finances of the political subdivisions can also be used to illustrate the trends. In 1913 the federal government spent less than 1 billion dollars. Since 1925 there has been a growth in the fiscal systems of the state and local jurisdictions although it has not been as great or as rapid as that of the federal government finances.

A survey of the net expenditures made by state governments in selected years will aid in indicating the trends. It should be noted that none of the federal funds that are expended through state channels is included:

NET EXPENDITURES PAYABLE FROM STATE REVENUES¹

| | (Millions of dollars) | | | | | | | |
|-----------------------|-----------------------|-------|-------|-------|-------|-------|-------|-------|
| | 1925 | 1930 | 1931 | 1932 | 1933 | 1934 | 1935 | 1936 |
| All sources..... | 1,443 | 2,143 | 2,276 | 2,237 | 1,994 | 2,124 | 2,222 | 2,639 |
| From taxes and loans. | 1,209 | 1,830 | 1,973 | 1,920 | 1,677 | 1,807 | 1,905 | 2,319 |

It is doubtful whether an adjustment of these figures for price fluctuations, such as is usually made for series traced back to pre-war levels, would modify the trends.

In New York State the Governor's Executive Budget Message proposed expenditures totalling \$399,111,049 for the fiscal year ending June 30, 1938 (federal aid excluded). A comparable total, financed by taxes, loans, and non-tax revenues, had been expended in 1930. In that year (as in many others) bond issues were an important factor. In 1925 the total expenditure had been only \$182,602,584.

¹ Carl Shoup and others, *Facing the Tax Problem. A Survey of Taxation in the United States and a Program for the Future* (Twentieth Century Fund. New York, 1937), pp. 100, 107.

(The expansion of governmental activities and the financing media which have been developed to distribute their costs, are of unquestioned significance in the shaping of economic affairs.)

✓The Instability of Economic Affairs

2 The second reason for the importance of the control and guidance of the fiscal systems can be found in the everchanging character of economic and political backgrounds.) Even a relatively short period cannot fail to involve changes in significant trends. In any mention of only a few of the important factors (wars) should be included. They (bring about uncountable changes to which the public finances) as everything else, must make major adjustments. As far as future problems are concerned, (business cycle fluctuations, culminating in the world-wide depression of recent years, are of even greater importance.) Furthermore, (natural catastrophes, such as the floods and droughts) with which the United States must be prepared to contend, should be considered. (It is necessary to revise our beliefs about stability. The public finances must be amenable to adjustment. This requires a particular orientation of their character, their planning, and their control.)

(The recent economic depression) afforded an excellent opportunity for noting ways in which current developments are tending to emphasize the importance of the (interrelations between the public finances and general economic affairs.) The depression indicated the possibility of an increase in the scope and magnitude of economic fluctuations and their widespread reactions. It is not possible in shaping future policies to ignore such developments or the possibility of their recurrence. (No jurisdiction, either national, state, or local, can be considered immune from the effects of these upsetting conditions.) The fiscal systems of the American states were not substantially altered by war but the depression experience was not equally restricted in its reactions.

The depression has brought about the realization that the public finances have a definite (interventionistic rôle) to play in economic life. Those who guide fiscal policies cannot ignore the needs and demands which are to be met through the public finances. Neither can they ignore the reactions which the public finances create and which may foster economic stability or instability. Even intermediate jurisdictions such as the states cannot assume that their position absolves them of the responsibility of coördinating their policies with those of the national government.

The third important contribution which the depression has made to our knowledge of public finances is the fact that many fiscal systems are much more deficient in their ability to make necessary adjustments than had hitherto been supposed.) According to studies made by Professor Dalton and his associates,² and

² Hugh Dalton and others, *Unbalanced Budgets. A Study of the Financial Crises in Fifteen Countries* (London, 1934), *passim*.

by the League of Nations experts,³ every national unit of any importance incurred at least one deficit in recent years. (Almost every nation failed to realize planned balanced programs.) Since some countries entered the depression after prolonged financial difficulties, their experience is not comparable with that of units like the United States federal government which enjoyed surpluses and relative stability in the conduct of pre-depression finances. In general, however, nations found that major revisions in debt, taxation, and expenditure policies were essential. The experience of every national jurisdiction showed the importance of planning and control as elements in the conduct of depression finances.)

The financial experience of the American states offers a clear picture of the difficulties which were encountered and of their sources. It is not possible, however, to measure the effects of the depression on the states in terms of technical deficits.

Assuming economic opportunities to exist, the American states are not able to borrow at will. While occasional instances of unfavorable long- and short-term debt operations are noted, the casual observer will not find many mounting public debts and in this respect will find no indication of recent difficulties. The experience with taxation reveals several more illuminating events. The states, finding their revenue systems inadequate, sought in many cases to remedy the situation by adding new levies and by replacing or modifying old ones. (In only a few cases some states were able to gauge correctly the productivity of their tax systems.) The errors which they made were costly in social and economic incidence.

(It is with regard to expenditures representing functions and activities carried on by the states that the terms "crises" and "breakdowns" can best be appreciated. The frequent and dire need for assistance from the federal government offered further evidence of troubles. Few states were able, as was New York, to continue reasonable standards of services initiated prior to the depression. Still fewer were able to meet the added burdens which the depression imposed.) Many states experienced a breakdown of state-aid which was partly responsible for closed schools and unpaid teachers, for a reduction in salaries below justifiable levels, for payments in scrip, and wholesale dismissals. At least one state defaulted on its debt service, while many others had little or no credit standing. (Without the billions of dollars of federal funds pouring in for relief, for public works, and for other purposes, it is not unreasonable to assume that a suspension of established state government would have resulted.)

(There were nations such as Great Britain, which did not accumulate large deficits for many years and which had considerable success in estimating needs and in financing them.) Equally there are states whose experiences stand out and cannot be described in terms of the above mentioned generalizations. No state's expe-

³ L. of N., Pub. Fin., 1928-1935, *op cit.*, *passim*.

rience was such as to deny the utility of research into the problem of improving its general efficiency and its adaptability to crises.

It has already been noted that this study does not attempt to treat with the problems which are faced by approximately 175,000 minor civil divisions. A reason for the omission is not, however, that there is no need for reform. It may be seen, however, that the unprecedented difficulties encountered with the reputedly reliable property taxes caused the localities to suffer extremely from the depression. (The stories of bond defaults, inadequate governmental services, and above all, of the widespread failure of local governments to assume their shares of relief burdens, are indicative of the added problems shifted to the shoulders of state governments.) The latter will find that the process of leaning heavily on a major jurisdiction can also affect them adversely.

§ 2^c

Goals of Fiscal Policy

There is no need for reviewing the character of the public finances and the desirable fiscal policies of national governments, since this study makes no attempt at reaching any conclusions regarding the reform of national budgetary systems. These are studied and analyzed in order to arrive at conclusions applicable to the states. An added purpose, that of providing a descriptive analysis of national systems, emphasizes the need for a knowledge of the financial problems of the respective governments whose practices are surveyed but does not render imperative a presentation of any suggestion for change.

In view of what has already been said with regard to instability in economic affairs, it would not be proper to view the question of adjusting American state finances to changing and dynamic conditions as a secondary problem. Determining the proper sphere of governmental functions, the tax burden distribution, as well as the scope of public debt operations may be treated as part of this problem. All reforms must be in terms of the economic conditions of the modern world, in terms of an adjustment to, and a compensation for, growth and fluctuations.

(A primary goal of the states should be their ability to render adequate governmental services at all times. Few will deny that a large proportion of state outlays, covering educational, welfare, correctional, and similar activities, should not be the flexible elements in any adjustments which have to be made. Unless functions are successfully allocated to other jurisdictions, there should be no compromise in the maintenance of essential governmental services. Many states did not achieve reasonable standards even during the prosperity phase of the cycle. Crises and emergencies of all sorts invariably involve added calls for governmental services. It is a feature of sound fiscal policy to be prepared to finance such needs, and to do so to the limits of economic, rather than legal, capacity.

There are two categories of governmental cost payments for which stability at all times is perhaps not necessary. Theoretically it is possible that a liberal attitude towards borrowing in connection with the trade cycle might encourage a cyclical adjustment of expenditures for retirement of the debt. In view of the legal and traditional status of debt operations it is virtually impossible to assume that the use of debt service charges as an adjustable element in state outlays will be available unless the rôle of borrowing is changed.

(Those who have concerned themselves with the problem of economic stabilization and with cycle smoothing efforts are in favor of timing public works.⁴ It is proposed that governments attempt to concentrate public works expenditures during periods of depression.⁴ In addition to low costs which may be enjoyed, the stimulation to business activity will benefit the entire economy. A postponement as well as an acceleration of normal public works should aid in achieving this timing. The availability of loan proceeds is essential for the proper development of the desired public works policies. Expenditure policies should be mainly aimed at stabilization.) Postponement and concentration are indicated only for two categories of state expenditures.

In connection with financing media the desired policies are in sharp conflict with present practices and potentialities. (The most logical theories are those which discourage any periodic changes in tax policies.) Unless such phenomena as protracted periods of rapidly rising prices are encountered it is deemed desirable that flexibility be sought elsewhere than in the tax system.⁵ (Instead of seeking taxes with diminished cycle sensitivity, the states are advised to search for tax systems equitably distributing burdens in terms of accepted economic and political philosophies.) The imposition of regressive taxes exerting deflationary influences during depressions is particularly deprecated. (The known cycle-sensitivity of ability-to-pay levies should be no bar to their widespread adoption.)

(The potential decreases in tax revenues during some periods and abundant yields at other periods do not disturb the logic of the proposals. Other financing media, particularly debts and reserve funds, are to be used.) Fixed assumptions regarding cyclical variations in economic conditions underly these proposals which are in keeping with those more frequently suggested for national governments. The hope is expressed that the states will avoid nullifying the policies of the federal government in terms of whose financial capabilities the proposals are conceived.

⁴ J. M. Clark, *Economics of Planning Public Works. A study made for the National Planning Board of the Federal Emergency Administration of Public Works* (Washington, 1935), *passim* and National Resources Committee, *Public Works Planning* (Washington, 1936), pp. 142-179.

⁵ J. M. Clark, *op. cit.*, Chap. XI, Problems and Methods of Financing, pp. 113-127. Also "Fiscal Aspects of Planned Public Works," appendix prepared by the present writer, pp. 176-180. Also Gerhard Colm, "An Ideal Tax System," *Social Research*, Vol. I, No. 3, Aug. 1934, pp. 319-342.

There is considerable room for justifiable criticism of the goals as stated, especially on the part of those who favor heavy seasonings of expediency. The proposals that retrenchment policies be avoided and that loan-expenditures be increased during depressions may not prove acceptable. The alternatives, such as were witnessed during the last depression point only to increased centralization and a shifting of the burden of adjusting to cyclical instability to the national government. (Economies achieved through curtailing essential services should not be the avenues of escape from permanently or temporarily inadequate revenue systems.)

(The most commonly mentioned goal of state and national financial policy is that of a "balanced budget." The planning and achievement at all times of the fiscal equilibrium described by that term, if not theoretically acceptable, is deeply imbedded in tradition and in direct and indirect constitutional and statutory mandate. (By virtue of the limitations on borrowing and of the express requirements which are outlined in detail in Parts III, IV, and V, the states at present must plan to initiate fiscal programs in which revenues and expenditures are in some type of equilibrium.) Regardless of what the states should do, they strive now and will continue, under the present institutional arrangements, to search for "balanced budgets." It may be well to analyze the concept and to note its most common interpretation in connection with the finances of the American states.

Concepts of Balanced Budgets

It is difficult to define the concept of a balanced budget. Its most popular interpretation is the equilibrium between expenditures and normal or ordinary revenues, usually tax revenues. It is not possible in terms of all jurisdictions to define which financing media are acceptable methods under balanced budgets. In connection with the federal government, which does not normally finance its capital expenditures by means of public borrowing, it is usual to consider any revenues derived from public borrowing, as synonymous with a deficit. Other jurisdictions, as will be noted below, refuse to consider debts incurred for certain purposes as representative of deficits.)

A more searching analysis reveals that (a number of possible interpretations of the concept of a balanced budget) can be reached. (Neumark in his monumental study of the German budgetary system has digressed to survey the various types of balances which may be achieved.) A somewhat obvious distinction is the one between an illusory balance and a real one. This classification can be used only in conjunction with the projected or estimated fiscal program. (He means to distinguish the projected or paper balance from the real balance, which a searching analysis of the real underlying factors alone reveals.* It is

* Neumark, *op. cit.* p. 23.

of course, further possible to distinguish between the projected balance and the accomplished balance. Neumark has in mind the widespread practice of governments of juggling estimates, concealing certain expenditures, and otherwise manipulating figures so as to achieve an equilibrium.) In the American states it is known that the limitations on borrowing require state officials to estimate revenues to equal expenditures, although in many cases there is no doubt that a more realistic approach would make the estimates reveal the uncertainties inherent in the economic background. (There are in modern fiscal systems few guarantees, if any, of achieving the program as estimated in the budget prepared in advance of the fiscal period to which it refers.)

The American states have linked their ideas and legislation on budgetary matters to the property tax. Revenue estimates were until recently rightfully considered as the equivalent of certain yields. (In conjunction with other modern taxes and modern economic conditions, tax revenue estimates are now better described as "guesstimates.") The estimates of non-property tax revenues are amenable to manipulation. There is no legal compulsion on taxpayers to pay the amounts estimated. A levy on an already existing tax base is not involved. The expenditures, which are executive proposals and which a legislature votes, are certain and fixed unless special provisions for modifications are found. There is a legal significance to the amounts which are voted. Hence the balances represented in state budget programs are so often not achieved.)

(Neumark's second distinction is between quantitative and qualitative balance. The former takes into account only the mathematical and numerical factors involved.) Simple addition of all items in the revenue and expenditure columns would determine quantitatively (the existence of a balanced relationship. The qualitative balance refers to the internal arrangement of the fiscal program and is closely linked to the principle of budgetary unity which is discussed in Part II. (The classification of expenditures into ordinary and extraordinary, current and capital outlays, etc., has resulted in the elaboration of numerous theories regarding the financing of these categories) Each jurisdiction can choose to delimit the elements of the fiscal system which are balanced against each other.

(The American states definitely subscribe to Neumark's foregoing concept of quantitative balance. This can be noted in their disregard of any acceptable scope for public debt operations in normal programs. The legal restrictions discussed below have imbued fiscal administrators, legislators, and the public with the notion that any failure to adhere to a pay-as-you-go construction program is inconsistent with a balanced fiscal plan.) The states further disregard the obvious difficulties involved in attempting to reconcile a realization of assets or the receipt in funds from outside jurisdictions with beliefs that expenditures balance with current revenues.) A depletion of the capital resources of a state government or the necessity of some other

jurisdiction to incur a debt to assist the state, as in the case of federal aid, is not regarded as unbalancing the state's budget.) (The states) measured in terms of the criteria which are now applied to the federal government and which are implied in Neumark's quantitative balance, (have at all times been incurring deficits as they have continually modified the constitutional restrictions and incurred debts for capital improvements and bonuses, and more recently, for relief. Viewed in retrospect their fiscal programs have been unbalanced while their budget programs have not.)

Another aspect of the problem which may be mentioned in connection with varying interpretations of the items which are to be balanced is the treatment of funds expended for debt retirement. Dalton believes that "in judging whether a surplus or a deficit has been realized, public expenditure should certainly exclude all debt repayment, even under statutory Sinking Funds. If there is any net repayment of deadweight public debt out of current revenue, there cannot be a true budget deficit." Net deadweight public debt equals (according to Dalton) the public debt less public assets.

In discussion of national finances there are many writers who subscribe to this viewpoint regarding net increases in debts. It is, however, unorthodox. (The difficulty of maintaining the contention that a budget is balanced without the inclusion of any payments for retirement of debt arises from the fact that such expenditures are usually contractual requirements on the part of the government, and in practice cannot be omitted.) This is certainly true in the American states where new loan proceeds are seldom related to the budgeted program of which debt services are a part. The problem is one which shows the inadequacy of the simple statements regarding balanced finances.

(The third balancing criterion is the classification of balance based on financial or economic factors. Judgments are involved regarding the fiscal and economic soundness of the methods which have been adopted to achieve a balance between outlays and their financing media.)

Several Italian writers have stressed the economic aspects of a fiscal program and have referred to their interpretation as one of qualitative balance.⁸ The writer subscribes to their opinions and considers the (qualitative balance to refer to the social and economic implications of a stated fiscal policy. The economic balance is of the utmost significance) so far as it attempts to view the underlying factors involved in any fiscal program. It is the balance which fiscal scientists attempt to discuss in their concepts of sound and acceptable financing. (A qualitative or economic balance is achieved by providing sound financing media

¹ Dalton, *op. cit.* p. 13.

⁸ Frederico Flora, *Manuale della Scienza delle Finanze* (Livorno 1921), p. 121. Also Vincenzo Tangorra, *Trattato di Scienza delle Finanze* (Milano 1915), p. 168.

for an expenditure program. The American states definitely stress the financial balance thus implying a neglect of economic implications, since it is considered a preferable practice to formulate a fiscal program in which debts play no part; (there is seldom any question of the economic effect of the tax measures or retrenchments in expenditure which may have been involved.) It is unfortunate that there exists no likelihood of the adoption of statutory requirements in terms of economic rather than financial balance.

This brief discussion should serve to indicate some of the broad fiscal policies which the American states should follow as well as those which they are more likely to pursue. Any ideas regarding a reconciliation of the two major policy goals, namely flexible and cyclically adjusted finances on one hand and balanced budgets on the other, must be viewed in terms of the elements in the fiscal systems of the states.

A study of financing media and of expenditures, as well as of federal, state, and local relations, follows. It will aid in clarifying potentialities in terms of traditions, practices, and legal provisions regarding debts, reserves, taxes, and expenditures. The discussion should serve furthermore to summarize the nature of the public finances and the fiscal policies with which state budgetary systems are concerned. The survey should also show that the (importance of efficient planning, formulating, adopting, and executing of a comprehensive and unified fiscal program cannot be over-emphasized.)

✓ CHAPTER III

THE FISCAL SYSTEMS OF THE AMERICAN STATES

I Debts

(The limited rôle played by loan proceeds in the finances of the American states is one of the most active influences on their fiscal and budgetary policies.) (Most of the states have embedded in their constitutions prohibitions or limitations which make it impossible for legislatures to sanction borrowing.) The following table shows the state loans outstanding in the period of 1928-36, inclusive. It indicates the (relatively small increases in the debts during the crucial depression years.)

-STATE LOANS OUTSTANDING¹ (GROSS DEBT)

| (In millions of dollars) | | | | | | | | |
|--------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| June 30, 1928 | 1929 | 1930 | 1931 | 1932 | 1933 | 1934 | 1935 | 1936 |
| 2,110 | 2,259 | 2,406 | 2,606 | 2,617 | 2,716 | 2,966 | 3,112 | 3,150 |

Increases of \$200,000,000 or less each year show that the states as a whole had no substantial sums available from the net proceeds of new loans (less retirements and refundings) for public works and for the general and specific outlays. Only New York, which borrowed substantially during each year since 1928¹ for

NEW YORK STATE BOND ISSUES²

DURING FISCAL YEARS ENDING JUNE 30

| (In millions of dollars) | | | | | | | | |
|--------------------------|------|------|------|------|------|------|------|------|
| 1928 | 1929 | 1930 | 1931 | 1932 | 1933 | 1934 | 1935 | 1936 |
| 225 | 50 | 10 | 81 | 30 | 45 | 43.5 | 71 | 40 |

purposes other than for refunding, has made loan expenditures in amounts which were important in relation to the State's total outlays. A few other states borrowed sporadically for various purposes, such as relief, highways, and public works. (None of the states, including New York, sold long-term bonds for the pre-announced purpose of financing general expenditures.) Only a few jurisdictions, such as Tennessee, funded short-term debts growing out of deficits. In 1936 Connecticut, Florida, Indiana, Kentucky, Nebraska, Ohio and Wisconsin were reported to have no outstanding long-term indebtedness.³

¹ Mabel Newcomer, "Analysis of the Nature of American Public Debts. Federal, State and Local." *American Economic Review*, Supplement. Vol. XXVII, No. 1. March, 1937, p. 50.

² N. Y. State Executive Budget Message for fiscal year ending June 30, Albany, 1936. Vol. I, p. III.

³ State and Municipal Compendium, *Commercial and Financial Chronicle*, Part I, June 30, 1936, and Part II, Dec. 31, 1936, *passim*.

Constitutional Limitations

Since (only eight states)—Arkansas, Connecticut, Massachusetts, Mississippi, New Hampshire, Tennessee, Vermont, and Virginia—can borrow freely without revising their constitutions, a consideration of the limits and the means of revising them is essential.⁴

The limits which are in effect in controlling general loan-expenditures are of two types. First, there are the prohibitions or maximum limits on amounts which may be outstanding at any time for the purpose of financing casual deficiencies in revenues. The constitutions of twenty-two states permit amounts which vary from \$50,000 in Maryland to \$1,000,000 in Pennsylvania. At least twelve states, including New York, have no limits, while five or six states prohibit this type of indebtedness entirely.

Borrowing for casual deficiencies enables the states to incur deficits up to the stated amounts. It is evident, however, that none of the stated maxima are sufficient to allow even the smallest states to engage in any substantial loan-expenditure programs. (Where there are no limits on debts incurred for casual deficiencies, the states are not free to borrow at will, since other limitations compensate for the absence of any specific restrictions on this score.) New York is typical of the states which are not specifically limited in borrowing for casual deficiencies but which are otherwise effectively restricted.

The second type of (debt limitation), and the most significant one, is that which (restricts the maximum amount of debts which may be outstanding at any time. There are also the restrictions stated in terms of purposes for which debt may be incurred.) A common clause includes both a maximum and purpose limit. The amounts are small if stated specifically. Six or seven states express the amounts in terms of assessed valuations of taxable property. This type of limitation does not enhance borrowing powers when they are needed most. The purposes for which loan-expenditures may be made are insurrection, invasion, and war. New York may borrow unlimited amounts for these purposes as well as for forest fire costs, a privilege which is of no value in adjustment to purely economic crises.⁵

(The limits, whether stated in terms of amounts, purposes, or both, are almost all of the same effectiveness.) Only the eight previously mentioned states are really free to borrow for any except extremely exceptional needs. For the other states the limits are useful primarily in determining the types of amendments which must be passed to legalize borrowing.

Before turning to the procedural aspects of revising the constitutional limits on borrowing, mention should be made of short-

⁴ Data on restrictions on state indebtedness are based on an unpublished memorandum prepared by Miss Florence de Haas, Reconstruction Finance Corporation, Washington, D. C.

⁵ It is of interest to note that a county in the state of Washington was upheld in basing its borrowing for relief purposes on an insurrection clause. (*Rummes v. Evens* 168, Wash. 527, 13 p. (2d), 26 (1932).)

term debts. It is through the piling up of unfunded debts of these types that national governments frequently increase their long-term indebtedness or suffer financial crises. (Most states are permitted to borrow in anticipation of tax revenues.) Very few commonwealths, of which Michigan is one, appear to be prohibited from issuing any tax anticipation warrants.

(These short-term obligations are, however, sometimes limited in amount.) Furthermore their usefulness as a channel for deficit financing is impaired by restrictions on the length of time for which these securities may be outstanding.) As a result in the first few years of the depression the amount of state warrants outstanding grew rapidly, but the total has remained relatively stable during the intervening period, indicating that a compensating process of retirement and new issuing has taken place.

STATE WARRANTS OUTSTANDING *

(In millions of dollars)

| 1928 | 1929 | 1930 | 1931 | 1932 | 1933 | 1934 | 1935 | 1936 |
|------|------|------|------|------|------|------|------|------|
| 34 | 41 | 38 | 60 | 279 | 301 | 265 | 311 | 244 |

The manner in which the ability to incur debts in anticipation of the receipt of taxes can aid the state in engaging in a limited type of deficit financing can be noted in connection with the constitutional provision of New York State. Section 2, article VII, of the State's Constitution reads as follows:

The State may contract debts in anticipation of the receipt of taxes and revenues, direct or indirect, for the purposes and within the amounts of appropriations theretofore made; bonds or other obligations for the moneys so borrowed shall be issued as may be provided by law, and shall with the interest thereon be paid from such taxes and revenues within one year from the date of issue.

This provision is of importance because, unlike many other states, New York has no mandate in its statutes or constitution regarding the balancing of its budget. It will be noted that (expenditures cannot be financed by loans until tax laws have been enacted providing for yields estimated at amounts sufficient to retire the bonds within twelve months after their issuance.) Since optimistic estimates can be accepted as the basis for borrowing the State may fail to balance its budget until the time when the outstanding short term indebtedness exceeds the non-earmarked revenues estimated for the following fiscal year. (It is not difficult to see that as long as the State has the ability to float tax anticipation warrants, opportunities for "illusory" balancing exists.) It is relatively easy to postpone for a short time an ultimate balancing of New York State's budget.

* M. Newcomer, *op. cit.*, p. 50.

Procedures for Amending Debt Limits

(The frequent adoption of constitutional amendments gives to the debt limits a power of delaying rather than prohibiting. Excepting the states which have no debts and those which have no limits, there must be an amendment to permit borrowing in the amounts which are required for such purposes as highways, other public works, veterans' bonuses, or relief. Table II shows the procedures for amending debt limits; for those states which have no effective restrictions the information may be used to show the procedures necessary to introduce them.

Only Delaware can make the change without a public referendum; all the other states require popular approval. Nine states require the approval of two legislatures, indicating a waiting period of several years. There are also limitations on the frequency of amendments. It is interesting to note that there are three instances in which the requirements for amending debt limits are more stringent than those for general constitutional revision.

It is therefore evident that even if the states can be convinced that borrowing under certain circumstances is desirable and legitimate, there is no way in which the policies can be quickly put into action as they are in national governments. Those preparing fiscal programs cannot act in any decisive manner until long after their programs are planned and submitted. One may conclude therefore that the limits are of added significance because of the difficulties of revision. It should not be assumed the existing volume of debts show that the restrictions are avoided in a convenient manner. New York State, for example, cannot borrow until ten months after the Governor submits his fiscal program.

II Taxes

(There are no reasons to believe that any tax systems are able to supply stable revenues at all stages of business cycles. The tax systems of the American states are beyond doubt of the variable and cycle-sensitive type.)

(One reason for this is the fact that property taxes have been reduced in importance as sources of state funds.) The fact that many state budgetary systems are however still linked to property taxes may warrant a review of recent trends. Table III shows the state property tax collections (excluding local shares) in 1922, 1932, and 1936. The collections are given in percentages of total yields in each state.

The property tax, it will be noted, was not levied in 1936 for state purposes in nine jurisdictions—California, Delaware, Massachusetts, Michigan, New Hampshire, New York, Ohio, Pennsylvania and Vermont. In Illinois, Maryland, North Carolina, Oklahoma, and Wisconsin the yields were so small that the States can well qualify for inclusion in the group of non-property tax

TABLE II
PROCEDURES FOR AMENDING LIMITS ON STATE INDEBTEDNESS

| | <i>Ratification by Referendum</i> | <i>Vote in Legislature</i> |
|---------------------|-----------------------------------|--|
| Alabama..... | Majority vote..... | 3/5 both houses |
| Arizona..... | Majority vote (d)..... | Majority both houses |
| Arkansas..... | Majority vote (d)..... | Majority both houses |
| California..... | Majority vote (d)..... | 2/3 both houses |
| Colorado..... | Majority vote (d)..... | 2/3 both houses |
| Connecticut..... | Majority vote..... | Majority of House of Rep. and 2/3 of both houses of next legislature |
| Delaware..... | None..... | 3/4 both houses (1) |
| Florida..... | Majority vote..... | 3/5 both houses |
| Georgia..... | Majority vote..... | 2/3 both houses |
| Idaho..... | Majority vote..... | 2/3 both houses |
| Illinois..... | Majority vote..... | 2/3 both houses |
| Indiana..... | Majority vote..... | Majority two successive legislatures |
| Iowa..... | Majority vote..... | Majority two successive legislatures |
| Kansas..... | Majority vote..... | Majority each house membership (2) |
| Kentucky..... | Majority vote..... | 3/5 both houses |
| Louisiana..... | Majority vote..... | 2/3 both houses |
| Maine..... | Majority vote..... | 2/3 both houses |
| Maryland..... | Majority vote..... | 3/5 both houses |
| Massachusetts..... | Majority vote (d)..... | 2/3 present and voting in each house (3) |
| Michigan..... | Majority vote (d)..... | 2/3 both houses |
| Minnesota..... | Majority vote..... | Majority both houses |
| Mississippi..... | Majority vote..... | 2/3 both houses |
| Missouri..... | 2/3 vote..... | Majority both houses (3) |
| Montana..... | Majority vote (d)..... | 2/3 both houses |
| Nebraska..... | Majority vote (d)..... | 3/5 both houses |
| Nevada..... | Majority vote (d)..... | Majority 2 successive legislatures |
| New Hampshire..... | Majority vote..... | Majority both houses |
| New Jersey..... | Majority vote (a)..... | Majority 2 successive legislatures |
| New Mexico..... | Majority vote..... | Majority both houses |
| New York..... | Majority vote..... | Majority 2 successive legislatures |
| North Carolina..... | Majority vote..... | 3/5 both houses |
| North Dakota..... | Majority vote (d)..... | Majority both houses |
| Ohio..... | Majority vote (d)..... | 3/5 both houses |
| Oklahoma..... | Majority vote (d)..... | Majority both houses |
| Oregon..... | Majority vote (d)..... | Majority both houses |
| Pennsylvania..... | Majority vote (a)..... | Majority 2 successive legislatures |
| Rhode Island..... | Majority vote..... | Majority 2 successive legislatures |
| South Carolina..... | 2/3 vote..... | Majority vote of legislature, intervening referendum, majority vote of next legislature |
| South Dakota..... | Majority vote (d)..... | Majority both houses |
| Tennessee..... | Majority vote (b)..... | Majority both houses and 2/3 of next legislature |
| Texas..... | Majority vote..... | 2/3 both houses |
| Utah..... | Majority vote..... | 2/3 both houses |
| Vermont..... | Majority vote (c)..... | 2/3 of Senate, majority of House of Representatives, majority both houses next legislature |
| Virginia..... | Majority vote..... | Majority 2 successive legislatures |
| Washington..... | Majority vote..... | 2/3 both houses |
| West Virginia..... | Majority vote..... | 2/3 both houses |
| Wisconsin..... | Majority vote..... | Majority two successive legislatures |
| Wyoming..... | Majority vote..... | 2/3 both houses |

(a) Amendments can be submitted only every five years.

(b) " " " " " " " " six "

(c) " " " " " " " " ten "

(d) " " " " " " " " initiated by petition.

General constitutional revision requires:

(1) 2/3 vote of 2 successive legislatures — no referendum.

(2) 2/3 vote of legislature and referendum.

(3) Majority vote in either house to secure consideration in joint session. Majority vote in 2 successive joint sessions.

TABLE III
STATE PROPERTY TAX COLLECTIONS

Excluding Local Share, Fiscal Years 1922, 1932, 1936

(Expressed in Per Cent of Total State Tax Collections, Excluding Local Share)

| STATE | 1922 | 1932 | 1936 |
|---------------------|--------------|--------------|-------|
| Alabama..... | 64.4% | 39.0% | 25.2% |
| Arizona..... | 89.9 | 65.2 | 25.8 |
| Arkansas..... | 72.7 | 25.3 | 19.1 |
| California..... | ¹ | ¹ | ..... |
| Colorado..... | 73.4 | 34.6 | 20.2 |
| Connecticut..... | 13.9 | 6.2 | 6.6 |
| Delaware..... | 12.9 | ¹ | ..... |
| Florida..... | 63.1 | 16.6 | 10.5 |
| Georgia..... | 58.4 | 21.9 | 17.1 |
| Idaho..... | 78.1 | 44.6 | 16.1 |
| Illinois..... | 37.2 | 24.6 | 1.5 |
| Indiana..... | 67.2 | 33.2 | 9.6 |
| Iowa..... | 40.6 | 30.3 | 3.6 |
| Kansas..... | 76.9 | 31.1 | 21.2 |
| Kentucky..... | 69.3 | 39.1 | 15.2 |
| Louisiana..... | 63.4 | 34.5 | 33.2 |
| Maine..... | 40.0 | 28.1 | 28.5 |
| Maryland..... | 38.1 | 25.2 | 3.5 |
| Massachusetts..... | 31.5 | 13.3 | ..... |
| Michigan..... | 61.7 | 42.9 | ..... |
| Minnesota..... | 34.7 | 24.2 | 36.8 |
| Mississippi..... | 71.5 | 41.8 | 10.5 |
| Missouri..... | 30.2 | 16.0 | 4.9 |
| Montana..... | 60.1 | 31.2 | 25.2 |
| Nebraska..... | 92.1 | 39.1 | 27.4 |
| Nevada..... | 87.7 | 52.6 | 41.4 |
| New Hampshire..... | 55.9 | 31.7 | ..... |
| New Jersey..... | 61.4 | 47.1 | 18.3 |
| New Mexico..... | 82.1 | 36.1 | 21.5 |
| New York..... | 20.5 | ..... | ..... |
| North Carolina..... | 12.7 | 9.3 | 0.7 |
| North Dakota..... | 69.4 | 43.3 | 28.4 |
| Ohio..... | 41.6 | 7.8 | ..... |
| Oklahoma..... | 17.1 | 20.3 | 1.1 |
| Oregon..... | 56.6 | 22.6 | 20.9 |
| Pennsylvania..... | ..... | ..... | ..... |
| Rhode Island..... | 18.3 | 11.5 | 10.7 |
| South Carolina..... | 70.6 | 15.9 | 8.2 |
| South Dakota..... | 80.8 | 45.3 | 3.1 |
| Tennessee..... | 60.3 | 3.5 | 4.6 |
| Texas..... | 65.1 | 32.5 | 23.7 |
| Utah..... | 74.3 | 49.1 | 12.7 |
| Vermont..... | 40.8 | 13.08 | ..... |
| Virginia..... | 37.8 | 11.2 | 5.8 |
| Washington..... | 61.0 | 41.6 | 18.2 |
| West Virginia..... | 31.9 | 18.4 | 4.7 |
| Wisconsin..... | 61.1 | 14.9 | 0.9 |
| Wyoming..... | 73.8 | 42.2 | 15.4 |
| All states..... | 40.6 | 19.7 | 7.7 |

¹ Less than 0.05.

Sources: 1922 and 1932: National Industrial Conference Board, *Cost of Government 1923-1934* New York, 1934, Table 13, p. 31. 1936: *Facing the Tax Problem*, op. cit., Table 12, pp. 534-7.

states. A further list of ten states, comprising Connecticut, Indiana, Iowa, Missouri, South Carolina, South Dakota, Tennessee, Virginia, and West Virginia, includes those which collected less than 10 per cent of their total 1936 tax revenues from this source. Only Alabama, Arizona, Louisiana, Minnesota, Montana, Nebraska, Nevada, and North Dakota obtained more than one-quarter of their tax revenues in 1936 from property levies. Minnesota with 36.8 per cent and Nevada with 41 per cent are the leading property tax proponents. Incidentally, only Minnesota of all the states deriving more than one-quarter of their total tax yields from this source collected a greater percentage in 1936 than it did in 1932. Because of smaller levies, homestead and other exemptions, and rate limitations, the importance of the tax in most jurisdictions is declining. The table, showing collections rather than levies, perhaps over-emphasizes the importance of the data for 1936, since delinquent levies of previous years are undoubtedly included.

Before turning to the other taxes which are found in state systems, it may be well to indicate why the decline of the property tax is important from the point of view of the budgetary problems with which this study is concerned.

(First, the states have been deprived of a tax in which the base varies only infrequently and reacts slowly, if at all, to immediate economic conditions.) (Second, the tax reduces to a minimum any need for recognizing possible troubled circumstances of taxpayers.) (Third, the tax is inherently suited, by virtue of periodic rate adjustment, to finance desired expenditure levels.) (Finally, as has already been noted, the property tax was believed to be one which could be estimated with certainty since the levy implied a potential lien on the tax property and the size of the tax base was known at the time of estimating.)

Unlike the conditions which are still encountered in the localities, it is no longer possible to think of state fiscal or budgetary problems in terms of property taxes. This is a development which will aid in explaining the conditions that are subject to criticism in connection with state budgetary systems.

Table IV shows the proportions of total state tax revenues (excluding local share) derived from various tax sources in 1936. (The importance of automotive levies is outstanding. It should be noted that the dedication of the yields of these taxes for specific expenditures, discussed in Part II, deprives the state of the benefit of having these relatively stable revenue sources available for general expenditures.) Only the so-called diversions can be considered in this regard. (Many other levies, including recently enacted social security taxes not shown on the table, are also not to be considered as state revenues available for general purposes.) Of the other taxes in state revenue systems it can be readily said that their general cycle-sensitivity, with some exceptions, does not warrant any favorable conclusions regarding stability of yields. (While some taxes such as those on general sales, tobacco,

and liquor can probably be depended on within reasonable limits, their yields are not important enough to offset the variability of other levies. (The revenue systems as a whole tend towards instability.) The tax reforms which are suggested in terms of social and economic desirability will add to the problem of fluctuating yields.

(New York State's tax system appears to be particularly vulnerable to unstable economic conditions.) New York relies more heavily on personal income taxes than does any other state in the Union. (The State's income tax does not permit averaging, lags in payments, or some other device which might curtail the reaction of immediate crises on yields.) The importance of the stock transfer tax (included under "Others" in Table IV) is also greater than in any other state, and ranks high in the State's own system. Only five other states collected a greater proportion of their tax revenues from death duties than did New York in the fiscal year ending in 1936. (These three levies, namely personal income, stock transfer taxes, and death duties, are among the most cycle-sensitive; New York collected over 50 per cent of its revenues from these sources.)

New York's tax problem, while not typical, indicates some of the difficulties which the states may expect to encounter. The budgetary implications will be kept in mind throughout the study.

171 Extraordinary Financing Media

(Financing media other than taxes and loans do not appear at present to be available to the states in any significant degree.) Gold increments, convertible assets in the form of non-earmarked securities, and other extraordinary resources are not likely to be available to assist in any fiscal emergencies. (Non-tax revenues from prices, fees, etc., are hardly expected to yield funds in excess of those needed for the outlays related to the receipts.)

(There is, however, the possibility that the states may accumulate reserves.) (The absence of the alternative of borrowing increases the attractiveness of this method) of solving some of the difficulties presented by falling revenue yields. On theoretical grounds the proposal meets with some banking and other economic disadvantages. (There is furthermore the need for forecasting the progress of the business cycle in order that the proper timing of the accumulation and of the spending may be determined.) It has also been suggested that amounts large enough to aid the states to meet demands similar to those presented by the recent depression could not be accumulated without suffering losses through raids and other abuses.)

(There is no doubt that a large degree of stability would be achieved if reserves were accumulated.) It will be recalled that New York was able to pay off its early depression deficits with an accumulated cash surplus.) One is tempted, however, to ask whether the states will start amassing funds available for general expenditures. The states operate constantly under the pressure

TABLE IV
STATE TAX COLLECTIONS, EXCLUDING LOCAL SHARE, 1936
(In per cent of total)

| STATE | Property | Severance | Corp. other than inc. | Corp. inc. | Pers. inc. | General sales | Liquor | Tobacco | Motor vehicle | Motor fuel | Death | Poll | Other | Fiscal year ending |
|---------------------|----------|-----------|-----------------------|------------|------------|---------------|--------|---------|---------------|------------|-------|-------|----------------|--------------------|
| | % | % | % | % | % | % | % | % | % | % | % | % | % | |
| Alabama..... | 25.3 | 1.5 | 9.5 | 1.5 | 1.8 | ..... | 11.5 | 13.1 | 23.5 | 0.5 | 0.9 | 10.8 | Sept. 30, 1936 | |
| Arizona..... | 25.8 | ..... | 1.1 | 2.7 | 3.8 | 21.5 | 6.6 | 3.8 | 5.8 | 22.9 | 0.4 | 5.7 | June 30, 1936 | |
| Arkansas..... | 19.1 | 1.1 | 4.2 | 0.8 | 0.9 | 13.5 | 5.1 | 5.5 | 13.2 | 33.2 | 0.4 | 3.1 | June 30, 1936 | |
| California..... | ..... | ..... | 4.2 | 9.8 | 4.3 | 47.2 | 7.1 | ..... | 4.7 | 18.5 | 4.3 | ..... | June 30, 1936 | |
| Colorado..... | 20.4 | ..... | 0.7 | ..... | ..... | 30.4 | 12.4 | ..... | 5.3 | 26.9 | 3.8 | ..... | June 30, 1936 | |
| Connecticut..... | 6.6 | ..... | 16.0 | 11.0 | ..... | ..... | 5.5 | 6.4 | 18.0 | 22.2 | 6.9 | 7.5 | June 30, 1936 | |
| Delaware..... | ..... | ..... | 37.1 | ..... | 12.3 | ..... | 6.9 | ..... | 13.1 | 23.6 | 6.2 | 0.9 | June 30, 1936 | |
| Florida..... | 10.5 | ..... | 5.4 | ..... | 1.4 | 2.2 | 2.2 | 9.5 | 16.8 | 38.4 | 11.4 | 4.4 | June 30, 1936 | |
| Georgia..... | 17.1 | ..... | 4.7 | 5.5 | 2.8 | 0.0 | 0.9 | 4.4 | 5.6 | 52.2 | 0.4 | 1.0 | Dec. 31, 1935 | |
| Idaho..... | 16.1 | ..... | 4.4 | 6.0 | 4.0 | 24.6 | 4.1 | ..... | 0.4 | 35.2 | 0.5 | 4.5 | June 30, 1936 | |
| Illinois..... | 1.5 | ..... | 6.9 | ..... | ..... | 49.4 | 7.1 | ..... | 14.3 | 12.7 | 3.0 | 3.1 | June 30, 1936 | |
| Indiana..... | 9.6 | ..... | 5.2 | ..... | ..... | 23.7 | 8.4 | ..... | 16.7 | 32.6 | 3.1 | 0.6 | June 30, 1936 | |
| Iowa..... | 3.6 | ..... | 4.6 | 1.4 | 3.4 | 17.0 | 2.9 | 3.5 | 28.0 | 20.2 | 3.2 | 11.6 | June 30, 1936 | |
| Kansas..... | 21.3 | ..... | 7.2 | 3.1 | 6.1 | ..... | ..... | 4.0 | 18.1 | 37.0 | 2.5 | 0.7 | June 30, 1936 | |
| Kentucky..... | 15.2 | 0.1 | 4.6 | ..... | ..... | 14.5 | 18.9 | 0.9 | 9.9 | 32.1 | 1.0 | 3.0 | June 30, 1936 | |
| Louisiana..... | 26.8 | 8.2 | 3.2 | 3.2 | 2.4 | ..... | 6.7 | 7.5 | 9.2 | 29.9 | 0.9 | 4.8 | Dec. 31, 1935 | |
| Maine..... | 28.5 | ..... | 11.7 | ..... | ..... | ..... | 8.1 | ..... | 18.7 | 26.5 | 3.7 | 2.7 | Dec. 31, 1935 | |
| Maryland..... | 1.3 | ..... | 10.7 | ..... | ..... | 9.7 | 7.7 | 0.8 | 12.6 | 25.8 | 5.3 | 26.0 | Sept. 30, 1936 | |
| Massachusetts..... | 1. | ..... | 19.3 | 4.7 | 4.8 | ..... | 4.0 | ..... | 14.7 | 35.2 | 12.4 | 4.1 | Nov. 30, 1935 | |
| Michigan..... | ..... | 0.2 | 12.6 | ..... | 2.4 | 34.2 | 14.8 | ..... | 0.6 | 30.9 | 3.1 | ..... | June 30, 1936 | |
| Minnesota..... | 36.3 | 0.9 | 14.0 | 4.8 | 2.4 | ..... | 6.4 | 0.3 | 13.1 | 14.6 | 2.2 | 3.8 | June 30, 1936 | |
| Mississippi..... | 10.5 | ..... | 6.8 | 2.3 | 3.0 | 25.7 | 1.0 | 8.8 | 1.1 | 31.2 | 0.4 | 9.0 | June 30, 1936 | |
| Missouri..... | 4.9 | ..... | 6.5 | 4.5 | 6.8 | 13.1 | 12.3 | ..... | 21.4 | 24.8 | 3.8 | 2.8 | Dec. 31, 1935 | |
| Montana..... | 25.2 | 3.4 | 2.3 | 2.7 | 2.4 | ..... | 18.8 | 0.0 | ..... | 42.7 | 0.7 | 0.7 | June 30, 1936 | |
| Nebraska..... | 27.4 | ..... | 4.3 | ..... | ..... | ..... | 8.3 | 0.0 | 13.3 | 45.8 | 0.8 | ..... | June 30, 1936 | |
| Nevada..... | 39.0 | 0.7 | 2.9 | ..... | ..... | ..... | 5.5 | ..... | 14.8 | 83.2 | ..... | 3.9 | June 30, 1936 | |
| New Hampshire..... | ..... | ..... | 14.1 | ..... | ..... | 18.7 | ..... | ..... | 25.2 | 37.8 | 4.2 | ..... | June 30, 1936 | |
| New Jersey..... | 18.3 | ..... | 6.5 | ..... | ..... | 7.4 | 7.9 | ..... | 17.2 | 21.4 | 21.4 | 0.0 | June 30, 1936 | |
| New Mexico..... | 21.5 | 6.0 | 1.1 | 1.2 | 0.8 | 25.1 | 4.3 | ..... | 7.2 | 33.1 | 0.0 | 1.1 | June 30, 1936 | |
| New York..... | ..... | ..... | 13.7 | 8.5 | 23.3 | 0.1 | 5.8 | ..... | 10.5 | 16.5 | 8.3 | 12.6 | June 30, 1936 | |
| North Carolina..... | 0.7 | ..... | 12.4 | 11.0 | 3.5 | 19.1 | 1.2 | ..... | 12.4 | 35.3 | 1.0 | 3.4 | June 30, 1936 | |
| North Dakota..... | 32.2 | ..... | 3.7 | 1.3 | 8.1 | 1.5 | ..... | ..... | 22.5 | 19.6 | 0.7 | 0.0 | June 30, 1936 | |
| Ohio..... | ..... | ..... | 19.5 | ..... | 3.5 | 21.6 | 21.5 | 0.5 | 9.7 | 24.3 | 2.4 | 0.8 | Dec. 31, 1935 | |
| Oklahoma..... | 21.0 | 22.9 | 3.9 | 6.4 | 4.6 | 18.2 | 0.0 | 5.4 | 7.9 | 28.6 | 1.3 | ..... | June 30, 1936 | |
| Oregon..... | 21.0 | ..... | 4.9 | 3.9 | 7.7 | ..... | 6.3 | ..... | 16.3 | 86.5 | 8.3 | 0.0 | June 30, 1936 | |
| Pennsylvania..... | ..... | ..... | 17.0 | 7.3 | ..... | 0.0 | 13.6 | 5.0 | 18.2 | 21.0 | 11.0 | 7.0 | May 31, 1936 | |

TABLE IV—Continued

| STATE | Property | Severance | Corp. other than inc. | Corp. inc. | Pers. inc. | General sales | Liquor | Tobacco | Motor vehicle | Motor fuel | Death | Poll | Other | Fiscal year ending |
|---------------------|----------|-----------|-----------------------|------------|------------|---------------|--------|---------|---------------|------------|-------|-------|-------|--------------------|
| | % | % | % | % | % | % | % | % | % | % | % | % | % | |
| Rhode Island..... | 10.7 | ..... | 29.3 | ..... | ..... | 3.0 | 3.0 | ..... | 22.4 | 20.0 | 8.3 | ..... | 6.2 | June 30, 1935 |
| South Carolina..... | 8.0 | ..... | 8.4 | 5.7 | 3.9 | ..... | 5.5 | 7.5 | 38.2 | 32.1 | 1.3 | ..... | 18.6 | June 30, 1936 |
| South Dakota..... | 3.1 | 6.2 | 2.7 | 0.0 | 0.0 | 32.4 | 3.3 | 5.2 | 2.0 | 43.1 | 0.7 | ..... | 0.4 | June 30, 1936 |
| Tennessee..... | 4.6 | ..... | 8.6 | 1.7 | 1.5 | 4.5 | 2.1 | 10.7 | 17.1 | 46.0 | 3.0 | ..... | 0.3 | June 30, 1936 |
| Texas..... | 23.7 | 10.5 | 5.6 | ..... | ..... | ..... | 4.6 | 6.2 | 5.6 | 39.9 | 1.2 | 1.2 | 1.6 | Aug. 31, 1936 |
| Utah..... | 12.6 | ..... | 3.3 | 2.7 | 1.5 | 26.2 | 1.2 | 3.2 | 14.0 | 32.1 | 2.2 | ..... | 1.1 | June 30, 1936 |
| Vermont..... | ..... | ..... | 18.0 | ..... | 6.9 | ..... | 8.1 | ..... | 2.4 | 26.6 | 4.0 | 4.8 | 3.0 | June 30, 1936 |
| Virginia..... | 5.8 | ..... | 15.6 | 4.5 | 2.6 | ..... | 11.3 | 0.3 | 13.0 | 33.2 | 2.3 | 1.8 | 9.3 | June 30, 1936 |
| Washington..... | 18.2 | ..... | 3.5 | ..... | ..... | 26.3 | 5.8 | 1.7 | 9.1 | 32.1 | 1.6 | ..... | 1.7 | Mar. 31, 1936 |
| West Virginia..... | 4.7 | ..... | 6.0 | ..... | 4.1 | 44.5 | 3.4 | ..... | 16.4 | 16.2 | 1.8 | 1.1 | 1.7 | June 30, 1936 |
| Wisconsin..... | 0.9 | 0.0 | 7.9 | 7.8 | 7.3 | ..... | 5.9 | ..... | 29.4 | 35.7 | 7.9 | ..... | 0.4 | June 30, 1936 |
| Wyoming..... | 15.4 | ..... | 3.9 | ..... | ..... | 17.9 | 7.8 | ..... | 4.8 | 38.2 | 0.5 | ..... | 12.3 | Mar. 31, 1936 |
| All states..... | 7.7 | 1.2 | 10.0 | 4.3 | 8.4 | 13.5 | 7.6 | 2.0 | 12.4 | 25.4 | 5.5 | 1.4 | 5.1 | |

Source: Adapted from Table K, "State Tax Collections, Excluding Local Share, 1936," *Facing the Tax Problem, op. cit.*, pp. 534-7.

of strained revenue adequacy. (Tax reductions and new functions are commonly suggested whenever surpluses are apparent.) New York's pre-depression experience may be considered exceptional. It is possible to conclude that reserves will not be called upon to solve the problems created by limited borrowing powers and inadequate taxes.)

β

Expenditures

(A survey of state expenditures reveals that there is only a limited scope for socially or economically desirable economies during periods of falling revenues. The fact that many states witnessed sharp decreases in their expenditures is an indication of the severity of depression influences on state finances)

(Public works and state-aid, including education, are the outstanding purposes for which state funds are expended.) The construction and maintenance of highways, and to a smaller extent of public buildings, accounts for the largest single category. Assuming that the states make no efforts to increase their public works outlays during depressions, as motivated by cycle-smoothing efforts, attempts at retrenchments will prove costly. The federal system of highway aid, described below, discourages diversion of tax revenues normally earmarked for highways.

Educational expenditures are represented by direct outlays and by the ultimate expenditure of the greater part of state grants-in-aid. Contributing to the support of schools and of institutions of learning accounts for a very large share of state payments.

(Various forms of social and economic welfare activities involving social security programs and the maintenance of charities, hospitals, and penal reform and other institutions, are growing rapidly. While outlays for education and state-aid do not necessarily expand during emergencies, those for welfare activities, including relief payments, do. Unless assistance from outside sources is assured the availability of funds is of the utmost importance)

Payments for the interest on, and the retirement of, debts; the protection of persons and property; the development and conservation of natural resources and health and sanitation activities probably represent the main applications of state funds.

Table VII, shown below, indicates the expenditure elements in a recently proposed fiscal program for New York State.[†] The small amount of administrative economies which can be effected because of falling price levels or for other reasons is apparent. Items such as those involved in economic intervention schemes and in armament programs, which presumably might be subject to widely varying interpretations regarding their necessity or magnitude, are lacking. Increasingly large proportions of the State's outlays are being made in terms of contractual obligations with beneficiaries. The expenditures of New York, other than

[†] See p. 80.

those financed by loan proceeds, have shown themselves to be particularly resistant to any downward revisions.

With improved business conditions the states will undoubtedly, as they did during the pre-depression decade, increase the range and size of their expenditure programs. The increases are bound to go beyond any which might be traced to rising costs and cannot, therefore, be expected to react to decreasing prices. (Under present financing arrangements the expenditure program can be maintained only if an upward trend in economic conditions continues, or if federal aid is given abundantly.) Neither supposition is certain, and only the latter shows some degree of probability.

✓ Federal and State Relations

The position of the states as intermediate political subdivisions indicates that no definite conclusions regarding their fiscal policies or results can be entertained without an analysis of federal, state, and local financial relations. The analysis, as well as some indication of practices, follows.

Taxes

(There is only a very limited integration of the state and federal tax systems.) There has been a decade of experimentation with the crediting device in connection with the federal inheritance tax. More recently a similar device has been adopted in connection with the payroll taxes for the financing of the social security program. Another recent tendency which may eventually prove to be of significance in terms of our problem is the practice of making available to the state the federal income tax returns in order to facilitate state tax administration. It is clear that such tax relationships as exist between the federal government and the states have only a limited influence in aiding the states to cope with fiscal emergencies or in affecting budgetary problems.

The crediting device, as exemplified by that relating to the federal death tax, affects the amount of the total liability of the taxpayer and its distribution between the state and the federal governments. The problem is an administrative one involving the recognition of the liability due to each jurisdiction. Once the respective tax liabilities are established, there does not appear to be any difference between such sums and those which would be collected by the federal government or the states from identical taxes which might be levied independently by those jurisdictions. The influence of the crediting device in forcing the uniform adoption of a particular tax is not of primary concern to the problem under study.

At present, the states cannot shift any of the estimating, collecting, or other tax administration duties to the federal government. Their budgetary procedures leading up to the collection of tax revenues must be entirely their own. Only the already mentioned ability to consult federal income tax returns may be

significant. It may herald a new trend in improving, through nationwide facilitation or coöperation, the quality of state revenue estimating.

In foreign countries the lack of centralization in tax matters is not a universal characteristic. Other governmental units comparable to the American states have been able to shift to their national treasuries much of the estimating and other duties. This eases the solution of fiscal problems and affects their ability to stabilize their finances. Of the countries whose practices are surveyed in this study, a group including Belgium, Denmark, France, Great Britain, Greece, Hungary, Italy, Irish Free State, New Zealand,* Roumania, Sweden, and Turkey has no units comparable to the American states. The Netherlands, although each province has its own budget, can possibly also be included within this category. (Elements of tax coördination are present in most countries.) In almost all cases a sharing of revenue receipts or some other form of coördination of revenue collections is found. There is also in almost all cases some form of national collection of taxes with a distribution to the intermediate or other political subdivisions, while occasional instances of locally-collected centrally-shared levies can also be found.)

2 In the category of nationally-collected locally-shared revenues several types exist. For the most part they are similar to the state-collected locally-shared revenues of the United States which are discussed below. In France and Italy the additional rates levied by the political subdivisions recall the practices found in connection with state and local property taxes in the United States. In France the estimates of revenues from the *centimes additionnels* do not appear in the national budget, although the collection costs appear as national expenditures. The device of added rates unifies fiscal accomplishments in the subdivisions and relieves the latter of much of the administrative responsibility. The political subdivisions must base their financial programs on estimates made by national authorities.

(Australia, Canada, (republican) Germany, British India, Switzerland, and the Union of South Africa all have governmental structures providing for intermediate units similar to the American states. The degree of tax coördination has been greater than in our own country. As a result the burden of the incidence of instability has been shifted back and forth between the central and local budgets.)

In some cases, the national governments are pledged to share specific sums from revenues collected. In others, variable shares fluctuating with yields or in some manner proportionate to them are disbursed. It is only in the case of the fixed and specified amounts which are not dependent upon yields that the tax sharing involves a potential expenditure liability for the disbursing unit. Only a policy of earmarking entire revenues from a specific tax

* New Zealand has no political subdivisions other than municipalities.

for local purposes removes the levy from any consideration in the balancing of the national budget.

Where there has been a shift from tax yield sharing to a grant-in-aid the budgeting problem has been removed entirely to the national government. The various methods involving central administration offer a clue to the type of arrangements which may be expected from growing tendencies towards centralization provoked largely by fiscal crises.

One of the features of the highly integrated German system (prior to the reduction of the *Laender* to administrative units under the National Socialist government) was the power of the Finance Minister of the Reich to obtain full information regarding the proposed budget needs and financing means of the *Laender* and communes.⁹ A number of other features, such as the power of the *Laender* to set aside existing laws dealing with coördination, if necessary, in order to meet crises and balance their budgets, show how certain systems can have a great influence on the finances of the subdivisions.¹⁰ An arrangement whereby shared receipts became grants-in-aid implied that the Reich relieved the subdivisions of any concern over the certainty of their share of the Reich taxes. With similar powers, which are also a feature of the Financial Agreement Enforcement Act of 1932 in Australia, an element of control over the budgetary policies and procedures of the political subdivisions is indicated. In return the subdivisions are relieved of much responsibility.

The present interest in furthering the coördination of the federal and state tax systems in this country, as well as the nature of developments elsewhere, indicate that changes are likely to take place. There is no question but that the major jurisdiction comes to the assistance of the subdivisions, with respect to emergency financing, under most arrangements.

Debts

In the field of public borrowing, the financial and budgetary problems which achieve their greatest significance during periods of stress and emergencies are affected. In the United States a basic independence of activities and budgetary functions in federal and state public credit operations can be found, although there has been a considerable growth in the practice of federal purchase of state and local securities. These purchases, nominally made in the form of regular bond transactions, were in reality deposits of security collateral for federal loans advanced to the state. They did not represent federal purchases of state and local securities made in competition with other potential buyers in the open market, nor were the purchases part of a preconceived or permanent plan of federal support for state securities. (The

⁹ Bhalchandra Adarkar, *The Principles and Problems of Federal Finance*, (London 1933), p. 249.

¹⁰ Paul H. Wueller, *The Integration of the German Tax System* (New York, 1933), p. 57.

purchase of federal securities by state agencies and state funds is not a significant development, nor one which gives rise to any important budgetary problems.) Federal purchase of state debts which have been incurred within the state's restricted legal ability to borrow has not substantially altered any commonwealth's budgeting practices related to public credit operations. It is conceivable that an extension of federal purchases and a retention of the state securities purchased by the federal government might have resulted in an annual payment of interest to the federal government forming an important expenditure relationship and eventually leading to totally changed borrowing practices. Lending to the states has been only a transitory feature and has more recently been replaced by federal lending to semi-public and public corporations and authorities operating outside of state and local debt limitations.

Most coordination arrangements might place outside control on state borrowing. In return for such control success of bond emissions at fixed rates of interest might be assured. At some time in the future changes of far-reaching significance will take place. However, until opportunities for a total revision of state limitations on borrowing occur, the implications of a coordination of federal and state public debt operations need hardly be the subject of any immediate concern. [Such a coordination would certainly revise the entire approach to the problem of adjusting state finances to dynamic conditions, particularly depressions.

A few interesting developments in the enhanced scope of national fiscal systems growing out of a coordination of borrowing have been noted. In the British dominions of Australia and Canada a linking of national and provincial borrowing has occurred. In Australia the Commonwealth completely absorbed the public debt of the states. Under the terms of the Financial Agreement Enforcement Act of 1932 these were included completely within the scope of Commonwealth Loan Fund operations. The Commonwealth control over the finances of the states and pledging of certain state revenues for the added financial burdens taken over by the Dominion signify that the scope of the national budget has been enlarged and is becoming similar to that of a unitary government budget.¹¹ The assumption by the Commonwealth of added fixed charges has increased the necessity for stability of its revenue system—a factor shared by all nations which have resorted to large loan expenditure programs during the depression. The Australian states, on the other hand, have eliminated an important fixed charge element from their expenditures.

In Canada the Dominion Government began its scheme by assisting the participating provinces in their debt refunding operations.¹² It did this by guaranteeing the newly issued obligations,

¹¹ From a letter to the writer from Professor F. A. Bland, Sydney, under date of March 9, 1936.

¹² D. C. MacGregor, "Federal-Provincial Relations in Canada," *Economic Journal*, Vol. XLVI, No. 18, March 1936, pp. 171-8.

in return for which the provinces pledged specific revenues and certain contributions to be received from the Dominion Government for the debt service charges. All borrowings are subject to joint Dominion and provincial regulation. There are other features of the scheme, which in the words of an English observer "seems calculated to serve the interests of the taxpayers of Canada, and to assist in the recovery and maintenance of economic welfare."¹³

Other forms of public borrowing coordination are exemplified by the British Local Loans Fund and by the National Credit Institutes in Italy.

The subject of coordinating federal and state borrowing has been the subject of little, if any, discussion in the United States. It is inconceivable, however, that some discussion and ultimately some elements of the much needed reform will not be forthcoming.

Expenditures

The distribution of federal funds to the states in this country did not involve important magnitudes until highway grants developed and until the recent depression created new categories of federal aid. For over a century there has been no distribution of federal surpluses to the states such as occurred in President Jackson's administration.

Until the depression, expenditure grants were seldom independent of some conditioned qualification on the part of the states. They invariably required some joint responsibility on the part of the states. The granting of flat sums to the political subdivisions or the states, without any qualifications as to their use or to contributing state shares, was extremely rare. The Annual Reports of the Secretary of the Treasury include some twenty-two purposes for which direct payments are made to the states. However, of these only aid for agricultural extension work, highways, cooperative vocational education and rehabilitation, and National Guard purposes, and grants from the Federal Emergency Relief Administration, Federal Emergency Administration of Public Works, Works Progress Administration, and under the Social Security Act each involved payments of over 10 million dollars in the fiscal year 1936.¹⁴ The total outlays of over 2 billion dollars which are reported exceed all state tax collections (excluding local share) during the same period. Excluded from the federal-aid total are minor appropriations for cooperative agricultural work with the states and appropriations made by Congress for direct relief or loans on account of floods, hurricanes, fires, droughts, etc.

It may be well to review the conditions under which the states receive federal support. There is no doubt that is through this

¹³ "Coordination of Public Borrowing—Australia, Canada, and Elsewhere," Midland Bank, *Monthly Review*, February–March 1936, p. 6.

¹⁴ Annual Report of the Secretary of the Treasury, 1935 (Washington, 1936), p. 476-8.

medium alone, under present arrangements, that the states can avert a total breakdown of their governmental services during crises. Payments for agricultural extension, vocational education and rehabilitation, and for National Guard purposes, all involve qualifying contributions by the states.

The states cannot hope to solve any of their problems through an extension of aid in these categories or in the others which have not been mentioned because of the relatively minor sums involved.

Highway grants totalled approximately \$225,000,000 in 1936.¹⁵ Of this sum only 22 million dollars is part of the regular federal-aid highway program. The other funds are part of emergency construction and National Industrial Recovery highway programs which are best considered in relation to recovery and relief measures.

The regular highway grants are significant because they provide for federal coercion regarding the sources of the funds which the states must provide. The chief element of the plan is the adoption of penalties for a failure to perpetuate the assignment of state automotive tax yields. The Hayden-Cartwright Act, under which the present regular system of federal-aid is carried out, begins a relevant section with the statement that "it is unfair and unjust to tax motor-vehicle transportation unless the proceeds of such taxation are applied to the construction, improvement or maintenance of highways * * *".¹⁶ In commenting on the federal efforts to check diversions through the medium of its highway grants Professor Crawford has noted the following:

Congress took account of diversion in Section 12 of the Hayden-Cartwright Act of 1934 which provided funds for highway construction. A series of regulations was issued by the United States Bureau of Public Roads in August 1934 interpreting this Act. Section 27 of these regulations reads:

Sec. 27. As soon as practicable after the promulgation of these rules and regulations, the Secretary (of Agriculture) shall determine, as of June 18, 1934, the legal requirements of the use for highway purposes of State motor vehicle registration fees, licenses, gasoline taxes, and other special taxes on vehicle owners and operators in the various States, or for the retirements of bonds for the payment of which such revenues have been pledged. If he shall find at any time that a lesser amount is to be applied to such highway purposes by any State than was provided by the laws of such State on June 18, 1934, he shall take such steps as may be necessary to comply with Section 12, by reducing the apportionment to such State by one-third of the amount to which it otherwise would be entitled in accordance with regulations to be issued.

¹⁵ *Ibid.*

¹⁶ 48 Stat. 993, 995 (1934).

This regulation is open to several interpretations. It may mean that an increase in the number of dollars diverted from gasoline-tax revenues to non-highway purposes will cause a State to lose one-third of its allotment of federal-aid funds. On the other hand, it may mean that a State could without penalty increase the rate of gasoline tax and the number of dollars diverted, so long as the number of dollars devoted to highway purposes was not reduced. This issue has not yet been determined.¹⁷

There is no doubt that this method adds greatly to the rigidity of state financial systems. The depression has indicated that the federal government will supply ample highway funds outside the scope of the matching arrangements. However, the states are not free to use gasoline tax and related revenues, which are of substantial magnitudes in proportion to total tax collections, for such purposes as they see fit. There are other important fiscal and budgetary implications of the federal-aid scheme which are discussed below.

✓ Payments under the Social Security Act are made according to a plan which is specific and which does not appear to be subject to varying interpretations regarding the basis for federal aid. Unemployment compensation schemes of the states receive administrative expenses in addition to a tax credit for the taxpayers. In connection with the immediate payment plans for old age assistance the federal government matches on a 50-50 basis the state contributions but will not allow more than 15 dollars per month for any individual. In addition the government will pay for administrative expenses, an amount equal to 5 per cent of the sum granted to a state. Grants for child welfare, aid to the blind, extension of public health services, and vocational rehabilitation are all based on specific matching plans. It should be noted that except for the unemployment compensation scheme, the plans require no particular source for state contributive shares. The states themselves must take the steps to provide the necessary funds. Old-age assistance payments will in practice hardly be subjected to the retrenchments which functions not federally supported suffered during the depression.

It is in connection with the billions of dollars that have been allocated to the states since the depression began that a clue to federal aid during emergencies should be sought. The task, however, of knowing what the future aid will be is a difficult one. The federal government has experimented and shifted the basis for relief and public works grants every year since the grants began. Not only has the basis for aiding the states changed, but there has been constant modification in the purposes for which the payments have been made, in the agencies which have granted

¹⁷ Finla G. Crawford, *The Gasoline Tax in the United States, 1936*, Public Administration Service Publication No. 54 (Chicago, 1937), p. 36.

the funds, and in the character of the non-federal agency with which the arrangements are made.

Some states have made contributing shares of 50 per cent or more while others have contributed nothing. The states have at times been advised to levy certain taxes, to amend their debt limitations, and to redistribute their funds. State officials have not known from year to year under what conditions and in what amounts federal aid would be granted. The federal government has made a practice of postponing the introduction of relief estimates until March or April. For most of the states which are voting budget programs in those years there is therefore no timely indication of what federal policy will be. Furthermore, the system of aid has placed a premium on state inactivity, on tax and debt limitations, and has in no way been used as a coercive device to bring about desirable and necessary reforms. It lies in the nature of emergency problems that they cannot be predicted. There seems, however, to have been an unnecessarily vacillating policy.

If past practices are indicative of the future, the states can expect to receive support for unemployment relief, general welfare relief, and for public works. They cannot under present arrangements expect that the federal government will support education, institutional care, debt service, state-aid, and the general administrative expenses of state governments. These are payments which the states must meet unaided. In a sense the federal government has come to the assistance of the political subdivisions in connection with added depression burdens and in the recovery and relief programs. The same attitude is seen in relation to occasional aid for disaster-stricken areas. However, the federal government does not yet use its borrowing and taxing powers to aid the states directly in connection with a vast area of their outlays which, like education, are of undeniable importance.

The situation with respect to federal aid may be summarized as follows: There are reasons to believe that the states will receive added support if needed for certain functions for which existing tax and contribution schemes are in operation, such as highways and social security. Furthermore, there are precedents for federal action in aiding the states in meeting basic relief needs. If future crises are to be met through loan-expenditure public works programs, the states may look for aid on this account. For welfare and public works the states appear to have been coerced into making less vulnerable their own abilities to finance these outlays and to have been given indications that an ultimate federal responsibility is accepted. There remain sufficient elements in the state financial systems which are not likely, on the basis of existing legislation, to be protected by federal intervention. The inevitable process of centralization has made enormous strides during the past five years. The states, however, are still financially independent sovereign jurisdictions with regard

to enough of their activities so that their problems are capable of complete solution only through their own action.

The United States is not alone in developing a system of aiding the subdivisions from the national treasury. Almost every other nation had provisions for grants prior to the depression, and with few exceptions, the outlays were increased. There is no question but that valuable experience can be gained from a study of these foreign methods on the subject of which numerous monographs have appeared.¹⁸ Various grants-in-aid devices and allocation formulae in this country are amenable to reform.

State and Local Relations

The links between the financial systems of the federal government and the states are growing and are bringing in their wake important problems for both units of government. It is between the states and their localities, however, that significant relations already exist. There is a close coördination of state and local finances. Most of the expenditure and revenue sharing and coördination schemes which can be suggested are found in one form or another in some state. Only in the realm of public debt operations do links between state and local jurisdictions appear to be lacking.

Taxes

Of the several possible solutions of overlapping state and local tax problems, the local sharing of state-collected levies, combined with a system of state grants-in-aid, appears to be the most popular. Their choice of these two devices is a comprehensible result of the failure of the localities to find for themselves substantial revenue sources other than the property tax. It is easy to explain a tendency on the part of the localities to share in state revenues since the supplementing of the state property tax by other levies or its total abolition as a state revenue source has offered favorable opportunities. On October 1, 1935, North Carolina, Vermont, and West Virginia, alone of all the states, were reported to have had no local sharing of state (non-property) tax yields.¹⁹ Particularly there does not appear to be a single commonwealth, among those which share the revenues, which does not divide the yield of the motor fuel taxes. In one state or another instances of a sharing of every popular state tax revenue source can be found. Taxes on banks, chain stores, cigarettes, corporate franchises and income, foreign insurance companies, incomes, inheritances, liquor, sales, and unincorporated businesses are among those which one or more states collect and distribute in part to their minor civil divisions.

¹⁸ See Mabel Newcomer, *Central and Local Finance in Germany and England*, New York, 1937 *passim*.

¹⁹ "State Administered Locally Shared Taxes in the United States as of October 1, 1935," R. Egger and R. Uhl, *Tax Systems of the World*, The Tax Research Foundation (Chicago, 1936), 6th ed., pp. 200-203.

In New York State the corporation income, personal income, financial institution, alcoholic beverage, and mortgage taxes, and the real estate and billiard licenses are shared.²⁰ The amount distributed in 1930, the year of the largest State tax collections to date, was 80 millions, representing almost one-quarter of all the taxes collected by the State.²¹ The share of total local revenues represented by the distributed funds was much smaller.

Although the problem will be discussed at length below in relation to state tax revenues assigned for specific expenditure outlays, it is advisable to note here some of the revenue and budgetary implications which are raised by varying methods for the distribution between the states and localities.

All of New York's shared levies, as well as the greater proportion of all the jointly divided taxes in the other states, provide for a percentage distribution of the funds collected. This divides the incidence of poor estimates and the onus of revenue inadequacy in the proportion of the participation. In a few cases the distribution involves a fixed sum. The state must bear the full responsibility for any discrepancy between estimated and actual yields. When the states agree to pay specific amounts each year to the localities instead of the percentages of revenue collected, an additional fixed charge and depression burden, one not usually associated with taxation, is added. The low proportions of the amount distributed to total yields and the stable cycle performance of gasoline levies which are frequently related to this practice tend to remove any major cause of difficulties on this score. The numerous instances in which the state acts merely as a collecting agency and redistributes all yields offer perfect examples of devices where there are no extra burdens assumed in addition to those planned at the time of the adoption of a formula. The special New York State Commission on State Aid to the Municipal Subdivisions based part of its reasoning against a continuation of state-administered locally-shared taxes (other than motor fuel levies) on the fact that depression burdens were shifted to the localities and that in years of high yields the localities received more than warranted.²²

A few of the other formulae for revenue sharing include granting the residue to the local units after a fixed sum is proportionally distributed or varying the proportion distributed according to the magnitude of receipts. Other combinations in which a fixed sum payment followed by the sharing of a percentage of collections until a specified maximum is reached are found.

From the point of view of adjustability to dynamic economic conditions, the most obvious solution is a complete shifting from the tax sharing to an expenditure grant. This presupposes that

²⁰ Report of the New York State Commission on State Aid to Municipal Subdivisions (Leg. Doc. 1936, No. 58 (Albany, 1936), pp. 10-15).

²¹ New York State Executive Budget Message, 1936, *op. cit.*, p. XVII.

²² New York Commission on State Aid, *op. cit.*, p. 11.

the states will not fail to take adequate measures to meet the additional demands for stability which this enlarged scope of their budgeted activities implies. As the tax sharing situation now stands, the budget problems of the states are needlessly increased in some cases by the necessity of operating with sharing formulae which disregard relative cycle instability. In other cases burdens have been arbitrarily shifted to the localities through methods which force the latter to operate with uncertain revenue sources.

The manner in which the states have aided the minor political subdivisions in their tax administration may serve as an indication for potential reforms in federal-state tax coordination.

Debts

It is not surprising that with the limited opportunities and desires on the part of the states for borrowing there have been only a few instances of state aid to the localities in the form of credit support. The following quotation from a study on municipal defaults gives a complete picture of the active state intervention which has taken place. It does not consider the use of state sinking or investment fund monies to purchase local securities or, at time after defaults, their refunding bonds.

Direct state loans to local governments have also been made in a few states. Massachusetts in 1933 established a ten million dollar revolving fund, under control of an emergency finance board, from which municipalities could borrow against tax title notes. Emergency finance loans to liquidate tax titles and tax liens, and loans for relief purposes were made to some fifty towns and cities. A 1933 statute in Connecticut provided for a state guarantee of municipal work relief or home relief bonds issued upon approval of the emergency relief commission, if any of the localities were without resources for such purposes. There have been few applications, however, for authority to issue such bonds.²³

In Massachusetts the sum was increased to \$16,000,000 (Acts of 1934, Ch. 313), and later to \$20,000,000 (Acts of 1935, Ch. 30c). The same author also notes two realized and one contemplated direct state assumption of local indebtedness.²⁴ The sad experience of the holders of the Arkansas local obligations, which were among those taken over, has given this practice a bad reputation. California's legislature rejected in 1933 a proposal for an amendment authorizing the assumption by the State of irrigation and reclamation district bonds.

If the practice of direct state loans or similar assistance and support to the localities were to be developed, the states would

²³ Albert M. Hillhouse, *Municipal Bonds: A Century of Experience* (New York, 1936), p. 331.

²⁴ *Ibid.*

find their fiscal and budgetary practices subject to novel influences, particularly since their emergency and depression finances would be subject to added burdens.

Expenditure

In the development of a balanced distribution of fiscal functions, state grants-in-aid are a more popular device than state-administered locally shared taxes. The powerful general property tax relief movement, a factor frequently alluded to in connection with the need for budgetary reform, cannot be neglected as an element which has led to the adoption of fixed payments to the localities out of funds derived from non-property taxes. A grant-in-aid achieves this without a specific link to a particular tax. Such specific expenditure tax links are over-emphasized in all the phases of state finances. Any development which minimizes such links is a desirable element in the solution of state budget problems. While comprehensive statistics of state grants-in-aid during recent years are not available, it is evident that education, highways, and health, welfare and relief activities²⁵ are responsible for the largest volume of state aid in each jurisdiction. Individual state reports and studies based on the distribution of the cost of financing different functions attest to this fact. In New York the volume of state grants-in-aid indicates their importance in both state and local fiscal systems.²⁶

From the point of view of the localities and those who bear property tax burdens, the centralization of finances in state hands is favored. There is no doubt that the success of the scheme depends upon the financial stability of the state and is a potent factor in the recognition of problems raised by this study.

While other allocation plans are in practice, the most common calls for the payment by the state to the political subdivision of a fixed amount per service function or unit. Particularly in the case of education is this method commonly employed. This type of grant involves a fixed payment which varies primarily with the need for the governmental function, as determined by population growth and distribution trends. The fiscal condition of neither the localities nor the states has apparently been a major determinant of the volume of fixed charges which state treasuries have been asked to bear. The history of the depression is replete with instances of breakdowns of state aids for education and a resultant collapse of the school system. It is essential that the ability of the state to meet its obligations be assured. Essential and universal functions which were previously financed by local property taxes are now comprehended in state budgets. The manner in which the state fiscal systems are enlarging their scope, particularly in the qualitative aspects,

²⁵ R. J. Hinkley, *State Grants-in-Aid*, Special Report of the State Tax Commission, No. 9 (Albany, 1935), *passim*.

²⁶ N. Y. Commission on State Aid, *op. cit.*, pp. 66-67.

cannot be over-emphasized with respect to its relation to increased fiscal efficiency and stability on the part of the states.

Other methods, found chiefly in connection with highway, welfare, health, and relief activities, are predicated upon local expenditures, which determine state contributions up to stated maxima. The property tax, in financing local payments, lends itself to the rendering of services dependent upon the certainty of revenue yields. It is safe to assume that the states relying heavily on other revenue sources do not escape the need for bearing a heavy fiscal burden when their own treasuries may be facing difficulties. No amount of state control over local expenditures can substantially reduce the burden of the important distributive share which the states have undertaken.

To understand the status of any given budgetary balance and of inter-governmental relations in state fiscal problems should serve to point out the background against which budgetary methods operate. The discussion turns now to budgetary problems proper.

PART I
BUDGETARY COMPREHENSIVENESS

CHAPTER IV

✓ PROBLEMS OF BUDGETARY COMPREHENSIVENESS

✓ The Principle of Budgetary Comprehensiveness

To understand the status of any given budgetary balance and to view the budget program as a point of departure for an analysis of the economic implications of a fiscal system, it is most important to examine the extent to which the budgetary procedure and the budgetary accounts include governmental expenditures and receipts. The budgetary system is approached as an instrument of control which may or may not be effective over the entire fiscal system. (The concept of comprehensiveness, known also as completeness or universality, describes the relation of the budgetary system to the fiscal activities of the particular governmental unit that it serves. In its usual interpretations the principle presents the demand that the budget cover all receipts and all outlays of the government.)¹

(Comprehensiveness is undoubtedly the most widely recognized of budgetary principles, and one that has been recommended as a feature of budgetary policy regardless of the nature of the approach to budgetary matters.) Various connections with the principle of budgetary unity established it as the best approach to a study of budgets as financial plans.²

(From the point of view of political control) it is obvious that the absence of a comprehensive budgetary system defeats some of the objects for which modern budgetary techniques were adopted. Writers like Jèze, who regard budgets as primarily political devices,³ stress the fact that the relaxation of legislative control or review over a certain phase of a government's fiscal activity, particularly one that is extra-budgetary in character, constitutes a deplorable defect in the system.) It should be recalled that the earliest attempts to institute budgetary systems were related to the efforts to enforce approval by representatives selected by the electorate, of executive action regarding taxation or expenditures. The concept of comprehensiveness has therefore had wide support from students of budgetary problems who have been chiefly concerned with other than the economic and fiscal aspects of the subject.

¹ Many writers on budgetary problems fail to draw a distinction between the principles of comprehensiveness and unity. In this study unity is defined in terms of segregations, and revenue and expenditure coordination, within the budgetary system.

² See: Buck II, *op. cit.*, pp. 125-127; "Budgetary Principles," *op. cit.*, pp. 243-244; Jèze-Neumark, *op. cit.*, pp. 221-222; Neumark, *op. cit.*, pp. 126-162.

³ Jèze-Neumark, *op. cit.*, Part I, Chap. IV, "Die Politische Bedeutung des Budgets," pp. 38-61.

(The problem of budgetary balance and of fiscal efficiency is directly affected by the comprehensiveness of the budget system. The link between a comprehensive budget system and the maintenance of fiscal balance is self-evident since complete equilibrium implies a full measurement of all income and outlay) (The identification of budgetary items with a particular period and the frequency of review and voting add a time emphasis to the problem of comprehensiveness.) It may be said that in terms of the fiscal problem the question of comprehensiveness assumes real significance. There is little value in seeking balanced relationship between items subject to fluctuating content.

(Comprehensiveness does not imply the subjection of all fiscal activities to a similar and uniform budgetary treatment at all times. What is meant is that the existing practice should be known and understood so that it may be relied upon to give a true interpretation of the budgetary balance.) Furthermore, changes made during periods in which the budgetary balance is in question must be considered from the point of view of their ability to facilitate and conceal objectionable policies. Certain policies described below, (are not only conducive to fiscal maladjustment but are associated with efforts to mask the true fiscal impact of economic policies. It should be recognized that it is very easy to conceal the increase of expenditures if certain categories may be segregated outside the budget and financed by credit operations not appearing in the publicized scheme of expenditures and revenues. On the other hand numerous infractions of the comprehensiveness norm are in keeping with economic, financial, and political realities. One must without hesitancy deny the usefulness of the principle as a rigid criterion for budgetary policy under all conditions.)

(In relation to the problem of budgetary equilibrium, the comprehensiveness of a particular budget system must be viewed from many angles. Each aspect affects all the phases of budgetary policy. A questionable attitude towards comprehensiveness may easily create financial disturbances in the planning, adoption, and execution of a fiscal program)

Expenditure Emphasis and Budgetary Comprehensiveness

An important phase of the problem of comprehensiveness, and one that is difficult to measure, grows out of a frequent tendency to consider budgetary techniques as concerned primarily with only one category of fiscal activities. (Budgets in many jurisdictions are merely instruments of expenditure control and at only one or two points in the entire system is there any attempt to consider expenditures in relation to revenues. A fiscal rather than a political or administrative approach to budget problems must be emphasized in order to obviate any tendency to hamper by the under-emphasis of one feature the coordination of revenues and expenditures.)

(A stressing of expenditures has) to the best of the writer's knowledge, (never been considered as a phase of the problem of budget comprehensiveness.) The fact that most of the theoretical and financial discussions of budget problems have not been formulated in terms of American conditions which offer the most striking examples of expenditure stress, may explain this. In any event the recent depression has shown clearly that too many budget systems have been predicated upon an adequacy and stability of revenues and that they have neglected to provide for those procedures that are best suited to the administration of modern financing media. Although here mentioned in connection with comprehensiveness, the difficulties that arise from an emphasis on expenditures can best be appreciated in connection with the various procedural aspects of budget problems presented in subsequent parts of this study.

With reference to practices in the state governments of the United States, it should be noted particularly that (emphasis on expenditures and exclusion of revenue items from some phases of the budgetary system place a major obstacle in the path of planning and maintaining balanced budgets. Both in the practice of financial administration and in the study of budgetary problems there exists a notion that budgets are instruments of expenditure control and economy and that revenue problems are distinct.) Such an interpretation implies a disregard of the problem of maintaining a balance. It may well account for a large share of the distasteful experience suffered by many state fiscal systems in recent years.

(Unless the relationship between income and outgo is kept constantly in the forefront during the formulation, adoption, and execution of a government's fiscal program, a tendency toward uncoördinated and independent action with respect to one or the other side of the budget picture is probable.) The result is that the best opportunities for achieving adequate revenue measures are neglected. The most flagrant defect in the various procedures is the disregard of timing. (Proper attention to this factor would best facilitate revenue estimating and would encourage orderly legislative consideration of revenue measures designed for adjustability to changing governmental costs.) Other ways in which an

* "The notion that budgets deal with, and refer primarily to, expenditures persists in the study and practice of budgeting. The historical evolution of budgetary control with its emphasis on the expenses of the sovereign is no doubt responsible for this. As late as 1917, we are told, 'in the United States and in Europe one thinks of the budget primarily as a document through which a program of expenditures is laid before the appropriating authority.' W. F. Willoughby, W. W. Willoughby and S. M. Lindsay, *The Financial Administration of Great Britain* (New York, 1917), p. 266. The same attitude is even more recently displayed in conjunction with a discussion of the scope of budgetary activity. In a popular text one reads: 'To be properly effective a governmental budget should be comprehensive, it should embrace every item of government expenditure.' W. Schultz, *American Public Finance and Taxation* (New York, 1931), p. 85." (Budgetary Principles, op. cit., p. 243.)

emphasis on expenditures becomes apparent include a failure to allocate duties and responsibilities for revenue proposals and a disinclination to use budgetary channels in connection with revenue planning. (A failure to coordinate public debt operations with the normal scheme of financing may represent another aspect of the same problem)

There is still evident a belief that the abuses and defects in American fiscal systems, not regulated by established constitutional and statutory practices and for which added administrative norms are needed, are those concerned with expenditures and not with revenues. At the time that budgets were put into effect, the public was faced with problems of pork-barrel raids, waste, dishonesty, and a generally irresponsible attitude towards expenditures. Budgetary estimates were introduced in an effort to control expenditures. The fact that deficit financing, although frequently present, did not act as a major incentive towards the adoption of budgetary practices in the states has already been stressed.⁵ For the states, the period following the Civil War was one of almost steady expansion. (One needs no clearer indication of the absence of any concern over revenue adequacy and coordination of revenues and expenditures than the fact that the uneconomic and impractical borrowing restrictions of an earlier period did not until recently come in for strong criticism and modification) through amendment. One might go so far as to state that even the recent fiscal crises did not bring about a proper realization of the inadequacy of both budgetary mechanisms and debt restrictions. (Another explanation of the condition found in the various states is the dominance of the property tax).

The emphasis on expenditures cannot, of course, be absolute; it is at all times relative and difficult of measurement. Every budget system contains some provision for linking the estimates of both income and outgo at the time of presentation of the proposed fiscal program. One finds, however, instances where (an initial survey of outlays in relation to financing media is neglected.⁶) However, before this stage has been reached there are possible several procedures and practices designed to assure the accuracy and reliability of revenue estimates and to give them the benefit of publicity and control.) It is primarily because of a failure to show further concern regarding revenues in relation to expenditures that this feature of the question of comprehensiveness is significant. (In Congress and state legislatures

⁵See p. 14.

⁶The following comments show this to be true in the case of Florida. "No provision is made in the budget document for estimating anticipated revenues to meet the proposed expenditures, although the budget law requires such an estimate. There is included, however, a statement of the revenues for each of the two appropriation years next preceding. The budget should contain as much detailed information on estimated anticipated revenues as it does on proposed expenditures." *Report of the Special Committee on Taxation and Public Debt in Florida* (Tallahassee, 1935), p. 27.

it is often the practice to appoint separate committees or sub-committees to deal with revenues, while entirely different groups, acting independently, concern themselves with expenditures. There is little effort at coördinating changes that may affect the balanced relationship of income and outlay, or at timing the introduction of such changes so as to insure the continuance of a balanced relationship.) There are in almost all of the states provisions that show an appreciation of the necessity of equilibrium, but the budgetary procedures are not in keeping with the spirit of such provisions.

(The budget system of the federal government provides for a budget that is primarily an expenditure plan.) The basic "United States Budget and Accounting Act of 1921" does not make any attempt to follow the developments in the relationship of revenues to expenditures once the President has submitted his fiscal program to Congress. As indicated above, some of the Congressional committees deal with the budget or other appropriation proposals, while taxes are handled in the House by the Way and Means Committee and in the Senate by the Finance Committee. Both of these committees deal exclusively with revenue proposals. It should be noted that the budget document contains no suggested revenue measures, and that, because of the constitutional prerogative of the House, revenue provisions are not subject to executive control to the same extent as expenditures. (In Great Britain, for example, it is not possible for Parliament to haphazardly introduce or vote unrelated expenditure and revenue items. There is no assurance in the British system that a balance will be achieved, but a recognition of the relationship between the factors is insisted upon in the various budgetary stages.)

(The most pronounced emphasis on expenditures in the budgetary system of a national government is undoubtedly to be found in the United States.) To a lesser degree the budgetary systems of Italy and Sweden may be said to display this characteristic.) The other national systems seem to place no particular emphasis on either revenue or expenditures although in many cases the systems are not those adapted to a solution of the revenue problems of the country. The disregard of measures best designed to facilitate the financing of budget programs, characteristic of our various state governments, is not duplicated in any national unit.

(The process of evolution that led to a basic shift in emphasis first developed in England.) Parliament was at one time given only limited authority in the initiation of revenue proposals. This more than anything else describes the (extraordinary emphasis on revenue items to be found in the British budgetary system today.) If there is criticism, it is aimed at the subordination of expenditure features. (Hills and Fellowes, for example, referring to the stress on revenues as a permanent feature of English budgetary practice, point out that British parliamentary pro-

cedure pays little attention to expenditures while taxation excites keen interest and controversy.

(Features of the British system that explain its superior pre-occupation with revenue factors and its marked tendency to discourage disequilibrium between income and outlay include a traditional method of periodic adjustment of tax rates, a marked concern with revenue whenever a new or increased expenditure is advocated, opportunities for the most efficient estimating of revenue, emphasis on revenue measures in the budget statements, and the general unification of revenue and expenditure planning) In connection with every aspect of the budgetary system an opportunity is afforded for discussion of a system better adapted to meet revenue needs.

In regard to receipts arising from public credit operations, the failure of budgetary systems to properly coordinate expenditures and financial measures may also be noted. (The lack of emphasis on borrowing) is justified by the necessity of viewing a mounting debt as an unwelcome omen of deficit financing. (The removal of borrowing from the limelight of budgetary procedures is an easy way of facilitating a balance that is achieved at the expense of sound and honest finance. It is virtually impossible to carry on taxing operations in modern society without creating widespread knowledge. However, public debt operations may be obscured or at least withdrawn from a proportionate share of the publicity and emphasis accorded other revenues. In extreme cases the true magnitude of outlays or the insufficiency of tax revenues may be shrouded in secrecy.) Although most jurisdictions do not indulge in such flagrant practices, (they fail to make proper provision for public debt operations in the planning and adoption of a fiscal program.) The peculiar institutions limiting and influencing borrowing in the American states, noted below, are largely responsible for the fact that these jurisdictions do not adequately take public debts into account in their budgetary systems. There are numerous economic and political reasons for considering public debts, as distinguished from other financing media, as in some degree of an extra-budgetary character. However, (complete neglect to make some budgetary provision regarding them is of course unwarranted.)

In the American states particularly, the depression and attendant fiscal difficulties have revealed a marked emphasis on expenditures in the molding of budgetary practices. Other systems have shown the advantage of granting full recognition to the financial administration of revenue programs. The failure of a particular system to provide adequately either for the revenue phases of its fiscal activities or for coordination with expenditure developments will be noted whenever it is evident in the operation of the system.

† John W. Hills and E. A. Fellowes, *British Government Finance*, 2nd ed. (New York, 1932), p. 48.

Other Aspects of Budgetary Comprehensiveness

Other aspects of budgetary comprehensiveness are discussed in the succeeding chapters. A brief summary of their subject matter may aid in clarifying the scope of the problems discussed as features of this budgetary principle. The following chapter treats with (the necessity for adjusting a periodic budgetary mechanism to continuing fiscal activities. The use of the fiscal year for this purpose is familiar. The length of the fiscal periods and their budgetary implications are surveyed as a basis for this view of comprehensiveness. The variations in the length of the budget period in the American states have brought to light a number of reasons for questioning the desirability of maintaining budgetary periods of more than twelve months.)

A second feature of the problem of comprehensiveness here analyzed, and one which may be considered in relation to the first, deals with the (periodicity of fiscal items. Many elements in governmental finances are not subjected to a review and control corresponding to the recurrence of the budget periods. Budgetary problems raised by continuing tax measures and by continuing and permanent expenditure categories are highly significant in relation to the question of adjusting fiscal systems to fluctuating economic backgrounds.)

A third and final phase is concerned with the (existence of extra-budgetary items.) This problem of budgetary autonomy must be differentiated from that of variations in the treatment of different items segregated within the budgetary mechanism. The latter problem is to be reviewed in terms of budgetary unity. (The segregation of certain fiscal items outside the recognized and normal scope of a budgetary system gives them an extra-budgetary status. They must be studied as a feature of the comprehensiveness problem. Functions allocated to semi-public bodies or to autonomous public and private units are among those that fall within the scope of the principle.)

(In jurisdictions in which there are wide ramifications of governmental finances and many opportunities for non-tax revenues, the problem of extra-budgetary elements in the fiscal system is important. Particularly the new or transitory policies adopted in response to fiscal and economic disturbances offer possibilities for a breakdown of budgetary comprehensiveness. National governments, with their varied functions and widespread use of public credit and other extraordinary financing media, are frequently found to carry extra-budgetary items.) The magnitude of the finances and of the economic resources of such jurisdictions permit the maintenance of activities that are exempted from the requirements to which budgetary items are usually subjected. The irregular character of the links to the budgeted elements of the fiscal system, particularly during periods of financial stress, create serious balancing problems.) The concluding chapters of this part deal with national and state provisions and practices with respect to extra-budgetary elements.

✓ **Finances of Multiple Jurisdictions and Budgetary
Comprehensiveness**

No mention is made in this report of the budgetary problems created by the existence of several jurisdictions exercising financial functions in the same geographic territory. Intermediate jurisdictions, such as the American states, must be particularly studied from this point of view since they maintain various fiscal links both with the national unit and with the local communities and other lesser civil units that form their political subdivisions. It has already been pointed out that certain coördination arrangements may aid or retard the various units in their efforts at financial control and stabilization. (It falls within the scope of an analysis of budgetary comprehensiveness to point out what portion of the total governmental outlays and income is considered when budgetary equilibrium is measured. National governments are able to shift items to the budgets of the political subdivisions or of their territorial dependencies.) At least one European regime has been accused by the political opposition parties of having balanced its budget at the expense of added burdens to be borne by the provinces and the minor civil divisions. The American states have no clear cut or uniform policy of showing in their budgetary accounts the sums that they receive from the federal government. They employ a variety of methods in treating the several types of aid which they render to the localities. (When efforts are made to study the financial accomplishments and the qualitative budgetary equilibrium of any jurisdiction, status of territorial comprehensiveness and any variations thereof must be taken into consideration. (There are American states that pride themselves on having balanced their budgets while they have been obtaining increasingly greater grants than have their neighbors from the federal government. Similarly, there are those that have attained some sort of fiscal balance by reducing the volume of aid in various forms that they give to political subdivisions.) New York, which ranks relatively low in the percentage of federal contributions received towards relief costs and which increased its annual contributions to the localities, can successfully meet the standards of other states. The question of the comprehensiveness of its budget program, based on the distribution of burdens between the multiple jurisdictions operating over its area, should, however, be taken into account.)

CHAPTER V

BUDGETARY PERIODS IN NATIONAL AND STATE FINANCES

Budgetary Periods and Fiscal Activities

(The question of the length and dates of budget periods is essentially one of the central problems of attaining a balanced budget as well as that of the general measurement of budgetary comprehensiveness. A balanced relationship between expenditures and revenues must be interpreted in terms of a particular unit of time, one that should be uniform among jurisdictions (if the status of the balance is to have any comparative meaning). In addition to the length of the fiscal period, there are, as H. C. Adams has pointed out, two other problems.¹ One is the date of the beginning of the period and (the time between the preparation of the budget activities and its presentation for legislative deliberation.) The second is the (relation between the legislative session and the dates of the fiscal period.) In connection with the problem of comprehensiveness only the length of the fiscal period and the adjustment of fiscal items to it will be considered. The other problems are discussed in terms of the practices relating to the preparation and adoption of budget programs.

The older economists, developing a theory of dichotomy that separated private and public finance, were fond of stressing the permanency of governments in contra-distinction to the mortality of citizens and their individual and group activities. (While the notion of permanency in connection with governments and their finances persists, it is evident that there is a continuity problem in connection with the beginning and ending of periods. Some break must be made, and restricted portions of fiscal activities delimited by their relationship to a time period must be segregated. This constitutes the matter with which the budget program for each period is concerned. There is no uniformity in the length of the periods by which budgetary systems delimit their concern with fiscal matters.)

In addition to variations in the length of the period, it is noted that many items in each system are not subjected to the periodic review and control that is applied to the other fiscal items. This must not be interpreted necessarily as an objectionable practice since variations in the length of budget periods indicate that there is in regard to this problem no accepted criterion to which all procedures must conform.) It can readily be seen, (however) that (by decreasing the frequency of review and by eliminating items

¹ H. C. Adams, *The Science of Finance* (New York, 1899), p. 132.

from such review, the comprehensiveness of the budget system may be seriously impaired.)

(In all national governments the length of the time interval known as the budget period or fiscal year corresponds at present to a twelve-month period with one lone exception.² This conforms not only to the traditional customs of governmental units but also to their fiscal needs and to their political practices.) It is evident that in democratic countries there can be no budget period that does not correspond to the frequency of regular legislative sessions. Throughout the world one notes in national jurisdictions that legislative sessions, if held at all, take place at least annually. No exception need be made even for Russia, which has functioned until now with a powerful legislative council acting frequently for a legislature that meets triennially. (Even in non-democratic countries, the fiction of some form of annual approval by delegated authority is usually maintained.)

(Historically, there are only a few exceptions to the annual budget period practice.) Between 1815-1830 The Netherlands is said to have functioned with budget periods of ten years. Bismarck is known to have desired a biennial period in connection with his interest in minimizing the control by the Reichstag of the financial phases of his policies. Many of the German *Leander* operated during the 19th Century with six-year periods.³ (On the other hand shorter periods are not unknown.) Russia is reputed to have had budget plans covering periods of a quarter or a half year. (Dalton has noted several recent examples of shorter periods. He says:

There is nothing sacrosanct about a year as a financial period. This has been recognized in a number of schemes for stabilization in which the budgetary period has been shortened. Thus the League of Nations plans for reorganization in Austria and Hungary instituted monthly budgets, and the monthly publication of accounts. The same plan was adopted in Poland as a means of correlating expenditure more closely with revenue, and is still in operation.⁴

Rare exceptions may, however, be disregarded in justifying the statement that national budget periods are one year in length.

(The American states display a totally different attitude in regard to the accepted length of the fiscal period. Biennial budget periods exist legally in as many as forty-two states, and in one classic example statutory procedures are based on the assumption that the length of the fiscal period will conform to the frequency of regular sessions, namely every four years.) Alabama is the unfortunate State. Only in Massachusetts, New Jersey, New York, Rhode Island, and South Carolina are there regu-

² The financial period of the Republic of Panama is two years. (L. of N., Tech. Comm., Vol. XII, p. 186.)

³ Neumark, *op. cit.*, p. 55.

⁴ Dalton, *op. cit.*, p. 14.

lar one-year budget periods. There can be no other explanation than the frequency of legislative session, although sessions might be more frequent if annual budgets were deemed important. Actually this does not mean that all features of budget systems are related to two-year periods. With respect to some characteristics many states maintain the fiction of functioning as if they were on an annual basis. Merely the planning and voting are done every other year. In other cases where special sessions have been called with frequency, a modification in the biennial or quadrennial budget system may be found.

(There is an indirect way in which the length of the period is changed. This is the result of modifications in the opening and closing dates of the fiscal period.) Each change must involve a period or more or less than one year during the transition. Such changes have been of sufficient frequency to warrant mention of this factor. Among national jurisdictions, since 1929 France is known to have had a 15-month period and a 9-month period because of a change in the opening date of the period from January 1, 1929 to March 31, 1930 and a subsequent return to the old date in 1933. In some of the smaller nations a shift to a calendar year basis is responsible for changes.

The American states have done a good deal of shifting, although it is doubtful whether their motives were always as questionable as those that influenced at least one of the French date-changing maneuvers.⁵ Mississippi recently shifted the opening date of its budget period, and it is possible that the much needed reforms in preparation and adoption practice will lead to further shifts. (Changes of dates motivated by desires to improve budgetary procedures can be strongly recommended. It is essential that when there is a transition to a new period the comprehensiveness of the expenditures and the revenues in each period be properly interpreted.)

✓ Budgetary Periods and Budgetary Comprehensiveness

From the point of view of the theory of budgets, written primarily in terms of national governments, the acceptance of a twelve-month budget period is deemed normal and desirable. The discussions, whether descriptive or theoretical, usually come to the same conclusion because, as has been noted, a budget period of a year is well nigh universal. Writers who have seen the possibility of longer or shorter periods have seldom had specific reasons to recommend changes.⁶ Of late, however, there have been a number of developments that have called attention to this problem, and it is not possible to denounce the practice of the

⁵ See Chap. XXIV.

⁶ H. C. Adams does not favor the year as a fixed budget period. He sees no reason why "for some purposes the year may not be broken into fractional parts, or that for other purposes it may not be used as the submultiple of a longer period." (*Op. cit.*, p. 133.)

American states categorically without reviewing the question in terms of current conditions. (Those who desire a shorter period are indeed few. As Allix has pointed out, a year is a time period that corresponds to our habitual calculations.) If the period were shorter, in France and in many other democratic countries the entire time of Parliament might be spent in discussing budgetary matters. (With the exception of countries that are experiencing financial crises or periods of financial reconstruction and are of necessity forced to operate on a month to month basis, there has been no serious consideration of a budget period of less than one year.) Usually monetary difficulties during the post-war period have been the reason for the occasional advocacy of a month as the governmental accounting period.

(Most of the discussions and suggestions center around the problem of whether or not the period should be longer than one year. It is stated by those defending biennial periods that an annual budget covering each item appears to serve only the interest of wasting time. They claim also that if the period is not lengthened the deplorable practice of adopting continuing items is encouraged.) There are only a few who suggest the desirability of lengthening an existing yearly period. Actual criticism of practices found in national governments is extremely rare. One must turn to the writings of Baudin who is apparently absolutely opposed to the implied judgments on policy expressed in the budgetary principles. He claims that (states, which must function along economic lines, arbitrarily and artificially base their finances on an annual budget. By clinging to an illusion of regularity and security the economic activity of the government is restricted.) Furthermore, a severe distaste for continuing appropriations, which he sees as a device for obliterating effective political control, has led him to desire a budget period sufficiently lengthy to remove the need of relaxing legislative review of any items.⁸

Another question is concerned with the efficiency of estimates. The recent fluctuating and unstable economic background and the attending difficulties of forecasting modern revenue and expenditure items has somewhat deflated the supporters of a lengthy budget period. It is impossible to assume that economic and fiscal events can be forecast with any degree of accuracy for a period longer than one year, especially in view of the lengthy periods that elapse between the preparation of the budgetary estimates and the beginning of the period to which they refer. To summarize, (the problems of legislative control, of estimating procedures, and of administrative feasibility definitely indicate the inadvisability of lengthening budgetary periods. Most of the reasoning on these problems indicates the desirability of using twelve months as a budget period.)

⁷ Allix, *op. cit.*, p. 228.

⁸ Pierre Baudin, *Le Budget et le D ficit* (Paris, 1910), p. 188.

✓ (It is in connection with the idea of a balanced budget program that the length of the budget period assumes vital importance.) Variations between income and outlay during the budget period are accepted as temporary and unimportant phenomena that have been solved by the world-wide acceptance of certain procedures and practices designed to effect short-term balancing by means of borrowing, reserves or other arrangements. It is obvious that any aberrations from balanced relationships during a period are of unlimited assistance in noting trends in fiscal accomplishments. Significant deficits and surpluses are recognized only at the end of the period. For example, although Great Britain has an enviable reputation for its ability to balance its budget, there seems to be little concern over the fact that a comparison of expenditures and revenues usually shows a deficit during ten or eleven months of each year. Dalton has stated the problem clearly:

✓ It might be asked whether there is any particular virtue in giving the yearly budget accounts any greater importance from the point of view of the period to which they refer, than is given to the yearly balance-sheet of a commercial firm. Why should not the period in which the accumulated deficit or surplus is allowed to affect the trend of budgetary policy be longer than one year? Budget planning implies tacitly that it will be so.⁹

In replying to this self-posed query Dalton shows a correct appreciation of the budget problem involved. He notes further:

I conclude that (circumstances may often arise, in which there is a balance of advantage in lengthening the period beyond one year, or, to put the same thought in other words, in judging a series of annual budgets as a whole, rather than separately. That some should show deficits is comparatively unimportant, if others show surpluses which balance the series as a whole.¹⁰)

Dalton does not confuse the issue with that of the length of the budget period or with the periodicity of review.

Because of the widespread public discussion of ("cyclical" budgeting and the elements of confusion involved, a brief analysis of the problem will not be out of place at this time.

The early depression years brought many examples of similar belief that budgeting should be cyclically adjusted.¹¹ It was suggested that the period for measuring the balance should conform to the length of the business cycle. No significance should

⁹ Dalton *op. cit.*, p. 324.

¹⁰ *Ibid.*

¹¹ See Robert Murray Haig, "The State of the Federal Finances," *Yale Review*, Vol. XXII, pp. 234-51 (1933); Harley L. Lutz, "Budgets, Bonds and Ballots," in *Facing the Facts* (New York, 1932), pp. 37-71; E. R. A. Seligman, "The Fiscal Outlook and the Coördination of Public Revenue," *Political Science Quarterly*, Vol. XLVIII, March, 1933, pp. 1-22.

be attached to variations in the balancing of expenditure and revenue during shorter terms within a period coinciding with the full cycle. This denotes that the period should include both good and bad years in the measuring of fiscal balance.) There are several angles to the question, and they do not all concern budgetary control. (If one simply regards the policy as condoning deficit financing for some years, there is no need to make any actual change in the length of the budget period.) Financial programs must as always be annually or biennially prepared, submitted, and voted. The economic plan, which indicates acceptance of specific financial results, accepts a philosophy which believes that occasional deficits do not indicate disorder at all stages. It may mean the avoidance of self-imposed corrective practices such as those found in the American states or in the German Republic. We have already noted that the problem of business cycle smoothing has stressed the inevitability of deficits in the case of national governments.) In the event that governments plan and anticipate deficits, as has been the case of the United States federal government in the last few years, the budget mechanism must continue to function and achieve the desired results in much the same manner as it would in the event that a balanced program was submitted and steps taken in order that a balanced program should be achieved. For the units that desire deficits and are in a position to adequately finance them, the budgetary aspects require little adjustment. (It is a matter of fiscal policy that they be prepared to borrow at times and tax heavily at others. The budget system should remain an instrument to put into effect a desired plan and guide it to successful completion.)

(In the case of jurisdictions like the American states such discussions are somewhat meaningless. There can be no cyclical adjustment unless the commonwealth can borrow, rely on reserve funds and convertible assets, or receive aid from other jurisdictions. What must be effected in the states is not a change in their budgetary procedures. Revisions are desired in their attitude and in legal and economic potentialities in connection with debt-regulating powers and debt-retirement practices, as well as a modification of the pay-as-you-go financial policy for general functions.) For example, tax anticipation borrowing would have to be extended for periods in excess of two years. The adjustment of tax revenues, not to the expenditures of each budget period but to a cyclical rhythm, would not mean that periods should be longer than they are at present. Nor would it mean that either the usual biennial or Alabama's quadrennial period should be reduced to the one-year term found in a few states and in the national government. (Even if it is assumed that a deficit would be acceptable and that there is no necessity of balancing revenues and expenditures for each period, the importance of correct estimating, of adequate control, and of periodic voting and review is not eliminated.)

The state biennial budgetary periods have in no way aided in meeting the problems of the depression. On the contrary they

have unquestionably led to difficulties. There were not only lags in the recognition of trouble but also postponed action in the removal and alleviation of the difficulties. Moreover, in the upswing phase of the cycle there is probably a retention of emergency measures beyond the period warranted. One may conclude, therefore, that (the emphasis on the desirability of a lengthier term for a calculation of balance does not connote a desire to lengthen the budgetary period. The emphasis should be on planning and control and with stress on the enforcement of principles of comprehensiveness. The toleration of deficits does not mean disordered finances. A plan that accepts the possibility of a deficit does not carry with it connotations of relaxed review or uncontrolled finances.) Lengthening of budget periods or retention of the present ones would not contribute to an improvement. (Recommendations for a revision of biennial budget periods in favor of annually revised programs should therefore not be interpreted as an expression of a viewpoint on cyclically adjusted finances.)

When there are difficulties in balancing a budget the temptation is great to postpone burdensome payments and to tap hidden reserves in the form of future items, measures which can be easily effected. (The practice involved in changing the periods is one of the aspects of the problem of comprehensiveness that is of interest to the student of balanced budgets.) (Under certain conditions this time-honored practice of shifting of items may contribute to the best financial interest of the jurisdiction and may represent wise fiscal and economic policy. Borrowing, economy programs, and deflationary tax programs can at times be justified and budgetary practices adjusted to them. There are evidently also conditions under which subjecting the budgetary system to manipulations affecting tax collection or expenditure payment dates is equally justifiable. It is seldom, however, that fiscal authorities adequately publicize their shifting of dates by giving a proper interpretation of the changing budget comprehensiveness implied in the proposed reforms. The influences of the changes on future budgets are also inadequately stressed.)

(New York State's recent fiscal history offers an opportunity to recognize a typical maneuver with respect to tax dates. The German tax prepayment plans also belong among recently publicized budget period manipulations. Characteristics of the prepayment schemes is the fact that a premium is offered to potential taxpayers to make available funds which they would otherwise not be called upon to pay until some future date. Unlike the New York plan mentioned above, which (involved the advance of a tax collection date and which could be operated only once with the same success, tax prepayment schemes may advance the yields of several years. What was involved in Germany was in effect borrowing against future budgets) a device which had been recommended as a means of coping with the effects of inflations on taxation. It is at other times a dangerous method of semi-concealed borrowing.) In the continual shifting of expenditure

items between different budget periods the French can also be counted upon to offer interesting examples.) The French accounting method, now in process of revision, allowed the accounts for a particular period to remain open for a considerable length of time after the expiration. (Each period, identified as an *exercice*, could be kept alive in a manner that allowed the practice of withdrawing outstanding balances from an expired period.) Allix reports that on January 14, 1930 the Chambers of Deputies voted a billion francs from the 1929 *exercice*. By doing this the surplus of that year was used for current outlays. Otherwise, once the 1929 *exercice* had been formally closed and a surplus recognized, it would have had to be earmarked for the sinking fund. After citing several such instances, Allix notes:

It must be noted with regret that for some years the principle of budgetary annuality have been more and more obscured from view. (The receipts and expenses of one *exercice* have been freely assigned to another. It is becoming impossible to ascertain the true budgetary situation.¹²)

The desire to make available hidden reserves, as are the opportunities to benefit a particular budget program by shifting tax payment dates, is something that cannot be judged in terms of budgetary procedures alone. (It is) however, imperative that the informational and comparative purposes that are served by maintaining effective budgetary comprehensiveness are achieved. (In the field of outlays it is impracticable to attempt to draw a line between the retrenchment and economy features of fiscal policy and objectionable budgetary manipulations. A failure to include a particular expenditure item in a budget program or to make provisions for an omitted outlay at a future date is a recognized practice in all jurisdictions. There are times, however, when observers may note the fact that governments facilitate their balancing tasks by obtaining funds for an outlay that is not made and accounted for in the period specified. The American states actually legalized such practices) by permitting and, in many cases, insisting that executives omit payments. School teachers and other public servants are well aware of the practices discussed here. Of what value is a statement to the effect that Commonwealth X has balanced its budget, if the statement is not amplified by information regarding what functions were carried out in relation to those of previous years or to those planned and included in the projected balanced program? Whatever the fiscal practices may be, it is the task of the budgetary system, through its documents and procedures, to recognize and acquaint those interested with the changing scope.

(A device resorted to occasionally by executives in planning budget programs or by legislatures in adopting them is a failure to include expenditure items that will have to be provided for in the period under consideration.) The fact that the legislature

¹² Allix, *op. cit.*, p. 235 (translated).

may meet again before the time for the expenditure outlay arrives enables the executives or the legislature to postpone the need for searching for the necessary revenues. (The items eventually turn up as unavoidable deficiency appropriations.)

(The practice of postponing expenditure voting is not always to be condemned. The relegation of items to a supplementary budget may be a long standing traditional practice that deceives no one. Again there may be some justification for assuming that the problem of securing the necessary financing media will be less irksome at a future date or that a legislature will be better able to meet the exigencies of the situation in calmer deliberation when the inevitability of the outlay looms closer.) The fact that so many systems necessitate the preparation of estimates far in advance of the period to which they refer makes it frequently advisable for executives to omit certain functions in the budget program. They later submit isolated estimates at a time when the needs can be more accurately determined. (The United States federal budget plans for 1936-37 and 1937-38, as submitted by the President, made no provision for relief appropriations but made it known that they were to be submitted at a time in the future, closer to the periods in which the outlays were to be made. Because of the many restrictions on changes and the requirements for presenting balanced programs, (there are numerous reasons for modifying the comprehensiveness of a budget program.) The practice is more common than the motives based on sound financial policy may indicate. Political strategy and practices designed to mislead are all too common as motives.

Again one need turn no further than to the recent history of New York State to discover an instance of a legislature's seeking to obtain the benefit of public approval for its economy efforts and for its avoidance of further tax burdens. During the early months of the legislative session of 1936 the State Assembly disagreed with the Governor regarding the advisability of voting funds for debt service charges to be met in the spring of 1937, that is after the reconvening of the Legislature. The issue was settled, the Legislature winning this point.

One can readily see that a great number of outlays are or can be segregated in the second half of a fiscal year and that a plan adopted before the period begins may omit a large proportion of such items.) This is a splendid example of balancing through changing the length of a budget program period.) Like the practice of changing the dates of a fiscal year, the administration that is in power when the change takes place may find its balancing task facilitated at the expense of future executives. It is a matter of financial policy to decide as to the propriety of a particular course. It is a matter of sound budgeting to place any chosen plan in its true light and to bring out any changes in normal expenditure and revenue relations.)

✓ Summary and Conclusions

(Of the several aspects that the budgetary principle of comprehensiveness treats, those which have been mentioned in this chapter are of prime importance in the problem of balanced budgets.) The national governments, in operating with twelve-month budget periods, establish this time interval for the measurement of their fiscal accomplishments. The American states in most cases favor two-year periods. In doing so they have gained no advantages in meeting crises and depressions as pronounced and as enduring as the one that the United States has recently experienced. The lengthy periods did not aid in concealing difficulties or in postponing action because of the absence of any legal compulsion to measure the balance at the end of the period. Subsequent parts of this study will show that estimating and forecasting, the basic prerequisites of sound fiscal planning, as well as the voting of effective programs, were hampered by the absence of flexibility and adjustment to change. The practices to which the states had to resort during the years of falling revenues will show that they were forced into the most objectionable policies. The length of their budget periods undoubtedly contributed to this situation.

(In connection with the length of the budget period it was brought out that balancing of a budget can be achieved through changing the nature of the items that are balanced against each other.) The changing of the dates of the fiscal period can result in lengthening or shortening a particular interval used for measuring income and outlay. Other devices that may be chosen as deliberate features of fiscal policy involve omissions and other changes in the items presented to depict expenditure-revenue relations. (The comprehensiveness of one period may be advantageously lessened at the expense of another. Also the comprehensiveness of the proposed budget program may be illusory because of different coverage from that planned for a previous period or from that which will have to be reckoned with when the accomplishments of the entire period are taken into consideration.) An appreciation of the descriptive uses rather than the judgment values of the budgetary principles will aid in bringing to light and clarifying the changes that take place. It is the function of those who draft budgetary provisions and of those who carry out stated procedures to establish standards that will discourage and uncover any unwarranted manipulations commonly associated with changing comprehensiveness.

In the next chapter still another phase of the timing and periodicity features of budgetary comprehensiveness is discussed, namely the frequency of review and voting accorded the individual items in the fiscal system under the budget methods in effect.

CHAPTER VI

CONTINUING FISCAL ITEMS AND BUDGETARY COMPREHENSIVENESS

Budgetary Aspects of Continuing Items

(One of the questions that must be analyzed in connection with the length of the budget period is that of so-called continuing or permanent appropriations.) (These involve an exception of some features of the periodic practices, particularly legislative approval, to which all other items are subjected. Their existence may belie the comprehensiveness of the budget system. In national and especially in state finances these appropriations constitute a major problem.)

(It is normally expected that all expenditures will be reviewed and newly adopted each time the fiscal program is formulated and voted.) (There are, however, categories of expenditures that are, by specific enactment, granted long or perpetual life. If the grants are embodied in constitutional provisions, the expenditure is not capable of being modified periodically, as in the case of permanent items that are based on statutory authority and may be brought up and revised at each session.)

(Continuing items are those that have been approved for a period of years in excess of the number in the budget period.) (New York would consider an appropriation authorizing the expenditure of a fixed sum for two consecutive years as a continuing item whereas in Alabama the number of years would have to be at least five.) (There are also appropriations that refer to no specific number of years but simply involve the authorization of expenditures during the undertaking of a particular function; this category of "no-year" appropriations thus disregards fiscal years and is linked to the activity that is being financed.) (The outlays for capital construction, not infrequently financed by borrowing, constitute the bulk of such appropriations. This study will concern itself primarily with appropriations other than those for public works, armament programs, and similar categories inherently unsuited to periodic voting.)

(It is not reasonable to assume that all continuing outlays (the term is used in its generic sense) are objectionable, and that there should be no reduction of budgetary comprehensiveness on this

¹ Both terms apply to similar legislative authorizations. In connection with national finances the term "permanent" seems to be enjoying greater popularity. (e. g. the federal permanent appropriations repeal movement). In the statutes and in the discussions dealing with state finances the term "continuing" is preferred. In this study "continuing" will be employed unless reference is made to specific acts or words of others.

score. Economic and fiscal interests are not necessarily best served by requiring the re-adoption of all outlays at each regular session. On the other hand there exists in democratic governments no unanimity of opinion, except perhaps with regard to judicial expenditures, as to the type of activities that should be spared periodic review through legal immunity from modification. These are, however, the difficulties and abuses associated with efforts to introduce sound budgetary practices in jurisdictions in which there are a large proportion of continuing items that make advisable and desirable some discussion of the problem. (The American states have obviously gone beyond a reasonable resort to continuing appropriations.)

(H. C. Adams is typical of those who are tolerant toward the practice of continuing appropriations. He has brought out that, in addition to the administrative desirability and the economy of legislative effort effected, the fact remains that it is always possible for the legislature to repeal a continuing appropriation. According to him one must reverse the viewpoint that a permanent or unalterable feature in the financial system is involved.² (In criticism of this viewpoint reference is made to the fact) already stated, that occasionally the continuing elements are constitutional and therefore definitely outside the scope of immediately affective legislative action. What is more important, however, is the fact that legislatures are not presented with the necessity of review and that the entire philosophy of executive budgeting is destroyed, inasmuch as the executive usually refrains from exerting suggestive or effective power over these expenditures. While it is possible that in the stages of preparation and adoption the opportunity for periodic review exists, it is not facilitated or encouraged. This tends to give to the continuing items a fixity and a sacrosanctity that removes them from the review that is essential in periods of financial stress. Legislatures have accepted the idea that the budget consists of a program presented to them by the executive, and it is a rare occurrence for them to make periodic review and research in respect to the desirability of continuing or repealing statutory enactments. In connection with the execution of the budget, it is frequently found that the laws and procedures affecting budgetary items do not extend jurisdiction over the continuing items and that control and regulation during subsequent stages are lessened. Immunities and special privileges, both those that were originally never intended and those that should be reviewed in the light of new circumstances, are thereby supported.) For example, continuing items were frequently not subjected to the change necessitated by fiscal need, a change that other expenditures had to undergo. This is not surprising since it is usual that some desire to segregate such items and remove them from control motivates their adoption.

It is seldom that continuing expenditure items are not amenable to the type of procedures to which others are subject, even in

² H. C. Adams, *op. cit.*, pp. 153-6.

terms of the need of regulation and control. A classification of government expenditures fails to justify the segregation of continuing items, most of which are found in connection with grants-in-aid to political subdivisions and expenditures involving contractual relations with beneficiaries. These two categories, consisting primarily of debt service requirements and subsidies based on formulas, are generally what might be termed fiscal charges. Continuing appropriations are also frequently the result of tradition, of legislative intent, or of executive desire. There are many examples of expenditures that are not based on any economic criteria or other legitimate foundation.

For the purpose of this study legislative review and voting are taken as a criterion for establishing a continuing status. There may be legislation requiring the state to meet a specific need. This may nevertheless be insufficient so far as the authorization of actual expenditures is concerned. The legislature must act on these fixed charges, and the executive has no choice with respect to the recommended appropriation that he must submit. His powers are merely advisory, a factor which is modified in the jurisdictions where the recommendations of the executive are protected from unlimited legislative modification.

No effort has been made in this chapter to deal with the special mill levies that were formerly a prominent feature of state finances. There are a number of such levies which provide funds for continuing appropriations. These fiscal items will be discussed in connection with assigned revenues and budgetary unity.³ At this point the following quotation from Buck's *Public Budgeting* will serve to explain the character of the items:

In many states, continuing appropriations are prohibited by constitutional provisions or it has become the established custom to renew all appropriations periodically; consequently special mill levies have to be authorized by the legislature in these instances as a method of providing continuous support for certain institutions and agencies. Frequently, these levies are not budgeted, since they carry with them the authority to spend on the part of the institution or agency receiving the proceeds. This is an unsatisfactory feature from the standpoint of comprehensive financial planning for the government and all its agencies. While a special mill tax may provide a constantly increasing income for a public institution, permitting this institution to plan ahead of its development, such a tax tends at the same time, to make the institution more or less independent of central governmental authorities, namely, the legislature and the executive, and therefore hampers systematic financial planning for the government as a whole. When once voted, the special mill tax may go on for years and the original amount may increase until it has doubled or trebled without any subsequent legislative sanc-

³ See Chaps. XIX and XX.

tion. Consequently such a tax often removes the institution or agency receiving it more completely from legislative control than does the ordinary continuing appropriation. Furthermore, the executive is generally prevented from budgeting the requirements of the institution or agency supported by a special mill tax, thus very seriously curtailing his managerial authority and control.⁴

Continuing Items in National Finances

Great Britain and the Empire Group

(A survey of the manner in which continuing expenditure items are handled in the various countries reveals the absence of any uniformity of budgetary treatment. The extent to which periodic voting is eliminated also shows marked variations.)

The British are the foremost exponents of the segregation of continuing items. Their budgetary system and those modeled on it are prominent among those that do not require annual voting of all expenditure items. In Great Britain the so-called Consolidated Fund Services consist of a number of items that are in force until their authorization expires or is repealed. The expenditures represented are for public debt service, for the civil list, for the Courts of Justice, payments to Northern Ireland, and various other purposes. Formerly, fixed subsidies to the Road Fund and to the local authorities were in part included.

About fifty per cent of the total outlays were carried in the Consolidated Fund Services until very recent years. It is undoubtedly because the fiscal policies in general are less dynamic than those of the United States or because of the special character of some outlays, as those for the civil list, that such a large proportion of its outlays are in the fixed category. In the last few budget programs increased outlays for social welfare purposes and the heavy armament program have tended to decrease the proportion of the expenditures represented by the Consolidated Fund Services.)

The British method involves annual review but not annual voting, that is the details and totals are made known and linked to the rest of the expenditure program indicated each year. Payments continue until the specific Acts lapse or are repealed. Appropriations that continue indefinitely, as well as those authorized by Parliament for stated limited periods, are included. While it is difficult to generalize on the economic nature of the items which are segregated in this manner, they have been aptly labelled "non-controversial."⁵ Parliament has tended to allocate to the Consolidated Fund Services activities which are not necessarily immune from modification but over which it has relinquished its desire for periodic voting. (The practice has in the past been criticized because the Consolidated Fund Services include activities

⁴ Buck I, *op. cit.*, p. 120.

⁵ Hills and Fellowes, *op. cit.*, p. 24.

which are not strictly of a continuing nature.⁶ Another criticism is that the arbitrary segregation cuts across functional lines and does not allow all expenses for a particular service to be brought together.)

In view of the limitations of Parliamentary action on the government's estimates, (the British segregation affects the executive as well as the legislature. The Consolidated Fund Services are in a sense immune from executive proposals for irrevocable decreases.) (The failure to review all the items may not serve the best economic and political interests of Great Britain, but the budgetary methods involved minimize the disadvantages inherent in this type of practice. (There is no complete withdrawal and concealment of permanent appropriations in obscure statutes. (Buck a few years ago pointed out with respect to the permanent appropriations of the United States federal government that "they are concealed in the permanent statutes, fostering, in some cases, half-way forgotten activities and projects which run for years without careful review either by the executive or by Congress.") This criticism cannot be levied against the British practice.)

(The assigned revenues, chiefly those collected by agencies which retain them for their own purposes (known in Great Britain as appropriations-in-aid), are not included among the continuing items. This signifies the absence of another objectionable feature) in connection with such items.

(The British Empire units that have been surveyed all follow Great Britain's practice. There are continuing appropriations similarly budgeted in Australia, Canada, India, the Irish Free State,⁶ and New Zealand.)

⁶ Buck I, *op. cit.*, p. 124. Also Willoughby, Willoughby and Lindsay, *op. cit.*, p. 44.

⁷ Buck II, *op. cit.*, p. 130

⁸ A discussion describing the Irish category of continuing items reveals the reasons for their limited scope:

Central Fund Services are direct charges on the Fund authorized by Statute for specific purposes and for a definite or indefinite time. They are non-recurring charges in the sense that once voted they remain in force until repealed, and consequently they do not come under the annual review and criticism of the Oireachtas. In fact, they may be regarded as continuing Grants to the Department of Finance for certain well defined purposes, and that Department has to render an account of all issues in respect of such charges, and the Comptroller and Auditor General must certify the account and report on it to the Oireachtas. Examples of such direct charges are the Salaries of the Judiciary and of the Comptroller and Auditor General, and the interest on National Loans. It is thus obvious that such charges, once voted are removed from control and criticism of the Oireachtas, which only possesses the right of repealing the Statute authorizing the charge. For this reason it is established policy not to make any case a direct charge which could just as well be provided for by an annual Vote. The Salaries of Civil Servants for instance, are not direct charges on the Central Fund, and must be voted annually, so that the policy governing them is subject to annual review and criticism. On the other hand, the object of making such items of expenditure as Judicial Salaries direct charges on the Fund is to secure the independence of the Judiciary, and to remove their actions from the criticism of the Oireachtas. J. B. O'Connell, *The Financial Administration of Seorstat Eireann*, (Dublin, 1935), p. 17.

United States Federal Government

(In the United States the federal government has had no traditionally recognized reason for passing or dealing with continuing appropriations. Nevertheless since 1800 a number of permanent (literally) appropriation acts have accumulated and have been administered without the periodic approval of Congress.) The 1921 budget reform did nothing to remedy the situation. However, (a more recent drive to eliminate the practice has culminated in the Permanent Appropriation Repeal Act of 1934.⁹ The law did not, however, remove all continuing appropriations and does not interfere with the right of the Congress to pass new ones) (Some 367 appropriations affecting 27 services operating independently of Congress were abolished.¹⁰ In his 1937 budget message President Roosevelt said, "By appropriating directly instead of authorizing an appropriation the amendment denies to the President the opportunity to consider the need to include appropriated estimates in the budget; and it denies to the Congress the opportunity to review such estimates in their relation to the whole program of the government."¹¹ The statement was made in reference to a recommended repeal of a permanent expenditure provided in the Agricultural Adjustment Act, since declared unconstitutional in its entirety. In the Act Congress had specifically amended the Permanent Appropriation Repeal Act.

As noted above (the Repeal Act did not abolish all of the permanent appropriations.) Debt service charges, which are excepted, gain their immunity from review through their contractual character. For reasons that were probably more political than economic or financial, a number of permanent appropriations, chiefly representing state-aid for agricultural extension work, land grant colleges and agricultural vocational education were not repealed. Table V, showing the permanent appropriations in force during the fiscal year ending June 30, 1937, serves to indicate the relative insignificance of items other than statutory debt service charges.

It is doubtful that Congress will refrain from passing specific amendments to the Repeal Act and that all unnecessary permanent appropriations will be abolished. There is no question,

⁹ 48 Stat. 1224 (1934).

¹⁰ At the time of the passage of the Act in the House (May 7, 1934) Chairman Buchanan of the House Appropriations Committee is reported to have made the following statement:

There are three hundred and sixty-seven "back door" appropriations through which millions of dollars automatically go out the back doors of the Treasury every year without the knowledge, consent or approval of the sitting Congresses.

It is maintained that neither by ethics, by logic, nor by constitutional authority has any one Congress the right to bind the hands of posterity by the enactment of laws mandatorily calling for automatic withdrawals from the Federal Treasury without annual examination, approval, and supervision of succeeding Congresses. N. Y. Times, May 8, 1934.

¹¹ "Budget Message of the President." *The Budget of the U. S. Government for the Fiscal Year ending June 30, 1937.* (Washington, 1936), pp. IX.

however, that such items should be limited. As (Willoughby) has suggested, (the existence of continuing appropriations complicates the problem of determining the needs of the federal government,

TABLE V.
RECAPITULATION OF PERMANENT APPROPRIATIONS

| DEPARTMENT OR ESTABLISHMENT | General account | Special account | Trust account | Total |
|-----------------------------------|--------------------|-----------------|---------------|--------------------|
| Legislative..... | \$800 00 | | \$78,000 | \$78,000 00 |
| Independent offices: | | | | |
| Veteran's Administration..... | | | 72,310,980 | 72,310,980 00 |
| All other..... | 60,000 00 | \$892,575 | 17,000 | 969,575 00 |
| Executive Departments: | | | | |
| Agriculture..... | 113,835,717 04 | 1,253,500 | 2,000,000 | 117,089,217 04 |
| Commerce..... | | | 147,450 | 147,450 00 |
| Interior..... | 9,550,000 00 | 3,400,000 | 15,188,040 | 28,138,040 00 |
| Justice..... | | | 947,808 | 947,808 00 |
| Labor..... | | | 60,000 | 60,000 00 |
| Navy..... | | | 1,717,100 | 1,717,000 00 |
| State..... | | | 20,000 | 20,000 00 |
| Treasury: | | | | |
| Interest on the public debt..... | 805,000,000 00 | | | 805,000,000 00 |
| Public debt retirement funds..... | 580,000,000 00 | 125,000 | | 580,125,000 00 |
| All other..... | 2,990,000 00 | | 17,525,300 | 20,515,300 00 |
| War..... | | | 1,937,700 | 1,937,700 00 |
| District of Columbia..... | | | 1,435,000 | 1,435,000 00 |
| Total..... | \$1,511,436,517 04 | \$5,671,075 | \$113,382,378 | \$1,630,489,970 04 |

Source: Appropriations, Budget Estimates, etc.: Statements for the Seventy-fourth Congress, Second Session (January 3 to June 20, 1936). Senate Document No. 276, Washington, 1937, p. 763.

introduces elements of uncertainty in determining the total funds voted for the support of government, and impairs the powers of Congress in the direction and control of spending services.¹²⁾ The hearings held in the House prior to the passage of the Repeal Act show that the existence of such appropriations could not be defended on any acceptable grounds.¹³⁾ A method of segregation might serve to call the attention of Congress both to the current and to any future permanent items exempted from the Repeal Act. (The British practice is superior in this respect.)

Sweden

(Sweden is another nation in the group that has been surveyed in which many continuing items are found.) The category of "extra" appropriations includes only those that are reviewed and voted each year.¹⁴⁾ (Another category of ordinary appropriations corresponds roughly to the Consolidated Fund Services of Great Britain. The items are reviewed but seldom varied; they receive blanket approval.)

France

(In France one meets with a convincing reason for doubting the desirability of creating continuing items. Objectionable budge-

¹² W. F. Willoughby, *The National Budget System: with Suggestions for its Improvement*. (Baltimore, 1927). p. 251.

¹³ Permanent Appropriations: Hearings before the Sub-committee of the House Committee on Appropriations, 73rd Cong., 2nd Session, Washington, 1937.

¹⁴ *Sweden's Budget System*, unpublished survey prepared for the writer by N. Stensland, Stockholm, May, 1934, p. 2.

tary autonomy has evidently been encouraged.) (Because the procedure calls for legislative control and review of all budgetary items the practice has been to place entirely outside the scope of the budget systems any items for which it is not deemed desirable to permit annual legislative review.)

As in some of the American states, the French have felt that public confidence will be enhanced if the government is able to pledge the Legislature to recognize the sanctity of an expenditure category.

(The segregation of continuing items outside the budgets relegates the subject matter to the study of extra-budgetary elements in the fiscal system.) The problem here differs also because of the fact that the extra-budgetary character of the expenditures necessitates the assignment of specifically dedicated revenues for their financing. A student of the French budget system has noted that the cost of collection of many taxes, a not insignificant element in France, is not periodically fixed by the Legislature.¹⁵ A number of other items are discussed below in connection with assignments.¹⁶ It is obvious that (the absence of any continuing items in the framework of the French budgetary system proper does not signify careful and uniform legislative control of all items or a conformity to the annuality principle.)

Other Nations

(There is a marked tendency to avoid continuing items in countries that have had difficulties with budget balances or which cannot afford to relax legislative control to any large extent.) Belgium, Denmark, Germany, Greece, Hungary, Italy, the Netherlands, Rumania, Turkey, and Soviet Russia require that all expenditure items be annually reviewed and, where legislatures function, voted.)

In Belgium the review and voting takes place in spite of what in other countries may be considered to be the fixed and recurring character of the outlays. The explanation in Belgium is found in the constitutional requirement for periodic review and control. In Denmark a number of items are voted according to the plan of long-range schedules. It may be supposed that because of a prohibition of the practice of retaining continuing appropriations, these items are voted periodically to conform to the law. Germany, Greece, Hungary, and Rumania may be credited with having adopted the system and the practice of annual review because of their financial difficulties. (The practice in the Netherlands of avoiding continuing items reflects the high standard of comprehensiveness in the system of that country.) With the background of Germany's adoption of the Weimar Constitution and its budget provisions, it is not surprising that there has been an attempt to assure complete control of all expenditure items.

¹⁵ M. B. Geny, "La Règle de la non-Affectation des Recettes aux Dépenses Publiques dans le Budget de l'Etat." *Revue de Science et de Législation Financières*. Vol. XXX, No. 2, April, May, June, 1932, p. 414.

¹⁶ See Chapter XVI.

(Italy, Turkey, and Soviet Russia) three countries associated with subordinated legislative power, have retained the nominal requirement assuring comprehensive legislative review. In Italy existing appropriations are reapproved as a formality. This appears to be one of the many anomalies that can be noted when Italy's *de facto* governmental institutions are compared with its Constitution and its Legislation.¹⁷ A similar serious effort to make the system comprehensive is found in Turkey. This lip service to comprehensiveness where the political element is absent may be interpreted as indicative of its economic importance in more democratic governments. It should be noted, furthermore, that few countries have been removed from the effects of severely fluctuating economies and that the question of revision and review is inevitably of major concern.) Economic necessity has overcome political sanctity as a factor in the avoidance of continuing outlays.

Summary

(The events and practices in the national units point definitely to the belief that continuing outlays are not conducive to the best financial results. The American states might well follow the federal government in trying to abolish all continuing items except those linked to fixed contractual obligations to creditors and similar expenditures.) For those continuing appropriations that are retained, the practices of Great Britain, the Empire group, Sweden, and a few other nations that are not normally as commendable in their budgetary procedures, can profitably be copied. The appropriation acts should not be obscured nor should the estimates of the continuing outlays that are to be made be so intermingled with the periodically reviewed as to be denied legislative attention. In France the volume of the continuing items, the link with assigned revenues, and the failure to segregate and publicize adequately the estimates of these outlays brought about the same conditions that will be described below in the various American states. Examples in the states of all varieties of attitudes towards the problem can be noted, but unfortunately analogies with the French condition are all too numerous.

Continuing Items in American State Finances

(The prominence of permanent and continuing items in state finances and the budgetary abuses with which they are associated tend to make this aspect one of the most important phases of the problem of comprehensiveness in these units of government. There are marked variations in the practices found and many definite indications that continuing appropriations have often been the cause of much difficulty.) The budgetary implications of state-aid and of assigned revenues are treated elsewhere but it should be recalled that they involve items which, in respect to annual control and review, are similar to continuing appropriations. In this part, however, they are not specifically mentioned, and an

¹⁷ See N. Y. Times, Nov. 15, 1936.

indication of an absence or repeal of continuing appropriations does not include any reference to these other expenditure categories. Statistical compilations also reflect the confusion of the several categories. All items not periodically voted are frequently grouped together.

(Of the states) for which information has been made available, some fifteen—including Arizona, Colorado, Illinois, Iowa, Kentucky, Maryland, Massachusetts, Mississippi, Missouri, Ohio, South Carolina, Texas, Virginia, Washington, and West Virginia—do not finance any considerable portion of their services or activities through continuing appropriations. Of these, at least three—South Carolina, Missouri,¹⁸ and Texas—have constitutional prohibitions. Massachusetts is the only state in the "annual" group not reporting any continuing items. Four of the five states in which annual budgets are effective have no prohibition of continuing appropriations. In South Carolina none of the appropriations running for two years would conflict with the constitutional provision; they would technically not be continuing appropriations.

(The prevalence of biennial budget periods does not seem to have militated against the use of continuing appropriations.) In Colorado¹⁹ and Mississippi the abolition of this system has been of recent date. Colorado has also been singled out by Buck as one of the worst offenders in the matter of using the proceeds of special mill taxes under continuing appropriations.²⁰ Idaho may well be included among the states that have abandoned resort to continuing appropriations since their magnitude is negligible. Furthermore, recent legislation provides specifically that continuing items be taken into consideration during both the formulation and the adoption of the budget program.²¹

As indicated below, New York's position in this group may also be defended. An exceptional situation, one that is at variance with the South's typical concept of budgetary efficiency, is to be

¹⁸ "The constitution requires that the budget show estimated revenues and a complete plan of expenditures. In practice, all expenditure items are reviewed and voted in the budget except those to be paid from grants, fees, and earnings received by the educational institutions. This exception results from S. B. 124, approved May 2, 1933 (Laws of Missouri, 1933, p. 415) relative to the deposit of fees, funds, and earnings into the state treasury. There are no permanent appropriations. Certain appropriations, such as for public schools and blind pensions, although voted biennially are made mandatory by state law and thus constitute fixed charges on the state treasury." *The Missouri Budget System*, unpublished survey prepared for the writer by Professor Lloyd M. Short, University of Missouri, Columbia, Aug., 1935, p. 1.

¹⁹ Letter from James P. McInvoy, State Budget and Efficiency Commissioner, under date of June, 1934.

²⁰ Buck I, *op. cit.*, p. 120.

²¹ The relevant sections of the statute read:

Sec. 1. Provided that departments or agencies operating under continuing appropriations must file with Budget Director statements of all its expenditures and estimated requirements for the ensuing biennium.

Sec. 2. Joint Appropriation Committee of the Legislature shall introduce appropriation bills covering requirements of those departments receiving continuing appropriations. Idaho Laws (1933), C. 136.

found in Georgia. There appears to be a large number of continuing appropriations provided for in the Constitution and on the statute books, but a regular review and reimposition of the statutory items is called for in each general appropriation bill. This is an intermediate solution of the continuing appropriation problem, similar to the one previously noted. (If continuing items in state finances cannot be abolished, they should at least be drawn studied expenditures.)

Selected States

In those states that retain continuing appropriations, difficulties and dissatisfactions are met with frequently. The situation in ①Alabama is particularly interesting. The report on the Brookings survey made in 1932 commented severely on the prevalence of the permanent appropriations.)

The present system of permanent appropriations deprives the legislative body of its most important function; that is, determining what appropriations shall be made for the activities to be performed by the administrative and executive branches of the state government.) Each governmental activity should be justified at each regular session of the legislature. The legislative body should make all appropriations at each regular session on the basis of (a) total resources available and to become available during each fiscal year of the succeeding quadrennial period, and (b) the need for such public service.

The per capita appropriations are believed particularly objectionable, because they encourage the institutions to increase the number of their inmates, as the greater number they have the more money is made available to them, and it discourages the discharge of inmates, as their removal reduces the amount of the appropriations payable to them at the beginning of each quarterly period.

(Under the present system the departments, and particularly the institutions, operate as if they were independent entities and have no relation to the state government except to draw their appropriations and spend them as they deem proper.) They operate as if they had no responsibility for assisting the Governor to balance the expenditures against expected resources.) The spending agencies, however, cannot be blamed wholly for their present attitude. They have operated independently for years and they have undoubtedly expended their appropriations wisely, but until they are brought under a central control and are required to justify their appropriations at each regular session, they cannot be expected to give much consideration to the financial situation and prospects of the government as a whole.²²

²² Report on a Survey of the Organization and Administration of the State and County Governments of Alabama, submitted to Governor Miller by the Institute for Governmental Research, Brookings Institution, Washington, D. C. 1932. Vol. 3, Part 2, p. 174.

On the basis of these recommendations the Alabama legislature in the extra session of 1932 repealed all "definite, indefinite and contingent permanent" appropriations.²³ Obviously, it could not repeal those provided for in the Constitution. Nor did it disturb those statutes that provided for the payment of interest on indebtedness "arising out of the disposition of lands devoted to state institutions by the federal Congress."²⁴ There is a similarity between Alabama's efforts and those of the federal government mentioned above.

(In California the amount of continuing appropriations which are not subject to periodic review and approval by the Legislature reduces the budget to a position where it concerns itself with little more than one-quarter of the fiscal activities of the State.) In the 1933-1935 biennium it was noted that 73 per cent of the total budget was made up of fixed charges and that only 27 per cent was controllable by the Governor. It is obvious that some part of these could profitably be biennially reappraised. A former State Finance Director has noted that the bulk of the State expenditures were not subject to any current legislative or administrative control, and that because of constitutional and statutory enactments, they were reduced to the absurd position of being chargeable to the direct mandate of the people.²⁵ In a letter to the writer, this former official stated that one of the two reforms his State needed in order to cope with the economic crisis was the elimination of fixed charges so that each budget might be enacted in the light of the current financial needs. However, he also stated that proposals to carry out the abolition of continuing appropriations introduced in the legislature have been defeated.

(Florida is another State in which continuing appropriations form a tremendous proportion of the total fiscal activity and reduce to an unimportant position the control exercised by the budgetary system.) Table VI shows clearly the effect of continuing appropriations. (At no time in a ten-year period did the budget cover more than 22½ per cent of total State appropriations, a proportion that in some years was reduced to as low as 11½ per cent.) The variations give some indication of the irregular review accorded the continuing appropriations since the rate of change as well as percentage of these appropriations to total state disbursements is not uniform. The comment in an official report is enlightening:

It will be noted from this table that the State Budget Commission budgets approximately only one-fifth of the State's disbursements; no estimate of anticipated revenue is contained in the budget; and the legislature's biennial appropriation bill covers only a like amount. (The budget, therefore, is little more than a program for current expenditures out of the general fund, the receipt and expenditures of

²³ Ala. Gen. Acts (Extra Sess., 1932) No. 37, §10.

²⁴ *Ibid.*

²⁵ Roland A. Vandergrift, *The Control of State Expenditures through Budgeting and Budgetary Control*, (mimeographed) March 15, 1932, p. 7.

special funds being altogether omitted.) The balance of the State's disbursements, over four-fifths, is disbursed under authority by continuing and permanent appropriations that never come before the legislature after they are enacted, unless a special bill is introduced affecting one of these appropriations. (The list of continuing appropriations is too numerous to allow even giving the titles in a report of this kind.

In many cases the legislature has provided an appropriation twice for the same governmental activity; once when the act sets up the activity and provides for it a continuing appropriation; and again when an appropriation for the activity is included in the biennial appropriation bill. Legally it would be possible to spend all of the appropriation provided in the biennial appropriation set up in the original bill creating the activity, thus defeating the intention of the legislature to limit the expenditures for a particular object. This evil can be abated by providing through a constitutional amendment that no appropriation shall run for over two years and that all anticipated revenues and estimated expenditures and disbursements of the State shall be budgeted. This would make it necessary for all financial matters of the State to pass before the representatives of the people every two years.²⁶ (In Florida, as in the other states) in which a study of the problem has been conducted, (a suggestion has been made regarding the repeal of all continuing appropriations.)²⁷

TABLE VI
COMPARISON OF BUDGET WITH APPROPRIATIONS AND DISBURSEMENTS
Florida

| FISCAL YEAR ENDING | State budget recommendation | Legislative appropriation | Continuing appropriation non-budgeted | Total State disbursements | Ratio State budget recommendation to total State disbursements |
|--------------------|-----------------------------|---------------------------|---------------------------------------|---------------------------|--|
| Dec. 31, 1924 | \$3,610,237 94 | \$4,630,528 01 | \$14,008,130 66 | \$18,638,658 67 | 18.93 |
| • 31, 1925 | 3,510,237 95 | 3,170,490 04 | 22,713,287 21 | 25,883,777 25 | 13.56 |
| June 30, 1926 | 5,041,262 48 | 4,993,013 98 | 10,278,558 04 | 15,271,572 02 | 33.01 |
| • 30, 1927 | 5,041,262 48 | 4,741,986 48 | 39,552,066 90 | 44,294,053 38 | 11.38 |
| • 30, 1928 | 6,183,592 49 | 6,367,641 48 | 32,210,732 17 | 38,578,373 65 | 16.03 |
| • 30, 1929 | 6,183,592 49 | 5,656,605 51 | 26,926,166 32 | 32,582,771 83 | 18.98 |
| • 30, 1930 | 6,494,460 47 | 10,510,470 85 | 32,324,765 98 | 42,835,236 83 | 15.16 |
| • 30, 1931 | 6,494,460 47 | 10,266,295 07 | 24,463,056 36 | 34,729,351 43 | 18.70 |
| • 30, 1932 | 7,191,011 62 | 7,185,028 50 | 25,093,659 14 | 32,278,687 64 | 22.28 |
| • 30, 1933 | 7,191,011 62 | 7,185,028 50 | 25,190,495 28 | 32,375,523 88 | 22.21 |
| • 30, 1934 | 5,777,515 06 | 6,416,131 89 | 28,733,883 63 | 35,150,014 02 | 16.44 |

²⁶ Six months period due to change in accounting period from calendar year to fiscal year ending June 30th.
Source: Report of the Special Committee on Taxation and Public Debt in Florida, op. cit., p. 23.

²⁶ *Ibid.*, p. 28.

²⁷ "Steps should be taken to control expenditures in the interest of economy. Control rather than prevention should be the objective. Since control ultimately rests with the people, they should be informed as to the expenditures through the dissemination of information by a centralized fiscal authority. Budgeting should be made more effective. All state appropriations should be included in the budget; under the present practice the greater proportion of state expenditures is not so included, due to continuing and permanent appropriations made by the legislature."
Ibid., p. 5.

(In Michigan continuing items are periodically called to the attention of the Legislature and are included in the budgetary calculations.²⁸) Although it is evident that their inclusion is for informational purposes only, this procedure proves that these items have been taken into consideration by those preparing the budget program. A complete revision of Michigan's budgetary practice repealed all continuing appropriations but excepted from the repeal those for building and other special purposes in connection with educational institutions, including Western State Normal College and Michigan State Normal College. Appropriations from the proceeds of the mill levies for the University of Michigan and for Michigan State College were likewise excepted.²⁹

An interesting situation is found in Tennessee.³⁰ The Public Acts of 1923 provided that "all continuing appropriations heretofore made by the legislature are hereby expressly repealed."³⁰ But the repeal was not fulfilled, as indicated in a statement received by the writer, containing the following comment on the situation in Tennessee:

However, (the practice of authorizing continuing appropriations has persisted.) The General Appropriation Act of 1931 (Chapter 85, Sec. 5) provides: "All continuing appropriations now in effect and not specifically provided for in this Appropriation Bill to be continued, unless repealed, or otherwise provided for." The General Appropriation Act for 1933 (Chap. 40, Sec. 3) adopted a more stringent policy. It provided "That all continuing appropriations under any former Acts except contingent appropriations for enforcing the laws of the State, be and the same are hereby suspended during this biennium. *Provided*. That the continuing appropriations for various examining and licensing boards shall continue, but the expenditures therefor shall not exceed eighty per cent (80%) of expenditures for the same purpose during the biennium ending July 1st, 1933."³¹

The effort to eliminate the continuing items, while not successful, has at least served to bring such expenditures more or less regularly to the attention of the Legislature.

New York

Before the statement of some general conclusions regarding the extent to which the comprehensiveness of state finances is affected by the persistence of expenditures under continuing appropriations, the situation in New York will be reviewed.

²⁸ Estimates of continuing appropriations (together with debt service charges) are prepared by the Budget Director and placed in the budget. *Michigan State Budget System*, unpublished survey prepared for the writer by G. R. Thompson, Detroit, June, 1935, p. 2.

²⁹ Michigan, Act of 1933, Sec. 187.

³⁰ Tennessee Public Acts of 1923, Chap. 7, Sec. 4.

³¹ *The Budget System of Tennessee*, unpublished survey prepared for the writer by Dr. T. Levron Howard, Tennessee Valley Authority, July, 1936, pp. 2-3.

In this State the volume of continuing appropriations not related to fixed contractual obligations is insignificant in comparison with the total annual disbursements of over \$300,000,000. Table VII indicates the nature of all continuing outlays including state aid and debt service and their relation to other appropriations. Approximately 11 million dollars out of total fixed charges of 194 millions for the fiscal year ending June 30, 1937 are of the type that the federal government partially repealed. It will be noted that only certain services in departments that receive the bulk of their funds from annual appropriations are financed under continuing statutes; only a negligible proportion of the normally variable outlays are immune from periodic voting.

The volume of fixed charges in New York has been steadily increasing; each year a smaller proportion of the expenditures to be made in the next fiscal year is subject to the planning and control of the Governor. (See Table VIII.) Governor Lehman in his 1937 Budget Message commented upon this state of affairs, calling attention to the restricted scope of his powers. The budget submitted to the Legislature, as may be seen from the tables, does not omit or obscure outlays for fixed charges. There are statutes requiring the Governor to submit the estimates listed under fixed charges. Because the legislators are required to act on them, the items are segregated and publicized.

It should be noted that (the constitutional budgetary provisions of New York contain no specific mention of continuing items.) With approximately two-thirds of the State's outlay in a fixed category, it is inconceivable that they could be obscured or neglected by procedures not calling for periodic review. (New York, however, has disregarded the constitutionally supported concept of executive budgeting. It has affected the comprehensiveness of the executive's planning, if not that of the voted budget.) In his 1937 Message the Governor made no recommendation either for a specific revision of any of the items or for a change of their status. He did, however, cause a Commission to be created to study the problem of state-aid, the most important element in the State's fixed charges. Since the nature of the debt service precludes any modification, it is chiefly in the field of state-aid that possible changes could take place. It is interesting to note that the Governor included the estimates of the legislature and the judiciary, over which he has no power, in the category with state-aid and debt service.

TABLE VII
GENERAL FUND APPROPRIATIONS
New York

| Current Expense (Excluding Fixed Charges) | 1936-1937 recommended appropriations |
|--|--|
| <i>Organization Unit</i> | |
| Executive..... | \$5,837,490 95 |
| Law..... | 1,119,579 13 |
| Audit and Control..... | 720,843 88 |
| Agriculture and Markets..... | 1,520,050 00 |
| Banking..... | 944,000 00 |
| Civil Service..... | 233,600 00 |
| Conservation..... | 2,530,418 55 |
| Correction..... | 8,159,861 21 |
| Education..... | 8,372,146 39 |
| Health..... | 3,872,344 11 |
| Insurance..... | 1,009,648 95 |
| Labor..... | 3,018,131 93 |
| Mental Hygiene..... | 30,267,748 88 |
| Public Service..... | 1,212,510 00 |
| Public Works..... | 15,345,054 97 |
| Social Welfare..... | 1,837,734 53 |
| State..... | 688,350 00 |
| Taxation and Finance..... | 8,922,300 00 |
| Miscellaneous..... | 759,925 00 |
| Total..... | \$91,866,738 35 |
| Legislature..... | 1,897,677 52 |
| Judiciary..... | 4,021,027 92 |
| Total..... | 5,918,705 44 |
| Capital outlays..... | 5,542,074 00 |
| Grand total..... | \$102,737,517 79 |

| Fixed Charges | 1936-1937 recommended appropriations |
|------------------------------|--|
| State Aid: | |
| Agriculture and Markets..... | \$250,000 00 |
| Education..... | 122,139,819 89 |
| Health..... | 618,000 00 |
| Public Works..... | 4,800,000 00 |
| Social Welfare..... | 7,500,000 00 |
| Total..... | \$135,307,819 39 |
| Other Fixed Charges: | |
| Executive..... | \$102,000 00 |
| Audit and Control..... | 4,924,666 22 |
| Agriculture and Markets..... | 1,450,000 00 |
| Correction..... | 281,203 78 |
| Education..... | 1,778,701 53 |
| Health..... | 26,500 00 |
| Labor..... | 672,258 18 |
| Mental Hygiene..... | 609,783 00 |
| Social Welfare..... | 505,000 00 |
| Judiciary..... | 500,000 00 |
| Total..... | \$10,910,112 71 |
| Debt service..... | 47,211,798 17 |
| Grand total..... | \$193,429,730 27 |

Source: State of New York, *The Executive Budget, 1936-1937, op. cit.*, Vol. I, C. VI-VII.

TABLE VIII
 APPROPRIATIONS
 New York

| | Current expense (Excluding fixed charges) | Fixed charges |
|-------------------------------|---|-----------------|
| Ten years ago (1926-27)..... | \$101,862,938 35 | \$84,033,897 01 |
| Five years ago (1931-32)..... | 154,963,771 09 | 153,786,123 86 |
| Last year (1934-35)..... | 98,332,464 33 | 181,241,743 35 |
| This year (1935-36)..... | 101,764,734 32 | 186,698,945 23 |
| Next year (1936-37)..... | 102,737,517 79 | 193,429,730 27 |

Source: *Ibid*, p. vi-vii.

Summary and Conclusions

(In practically every state where the problem exists efforts must be made to remedy the continuing appropriation situation. At least all the expenditures that are not based on necessary contractual relations or on formulae should be annually reviewed.) It is particularly important that a state benefit to the fullest possible extent from the freedom that its budget planners enjoy. Fixed charges linked to debt service and state-aid, as well as legislative and judicial immunities, should be the sole instances of comprehensiveness principle impairments on the score of continuing items. The problem in New York is of special significance. The prohibition against the Executive's submitting modified estimates to the legislature is a decided disadvantage from the point of view of fiscal efficiency.)

The decision to classify such major State expenditure categories as state-aid and debt service as fixed charges is a matter of fiscal policy. As long as legislators may modify the payments at will, there is no reason why the Executive should be limited in his advisory powers or the legislature deprived of a periodic review. If legislators cannot be trusted to provide for obligations to creditors or to the local subdivisions, they should not be trusted with the power to grant or withhold funds from any of the services rendered by the State. The advantages gained by removing the items from legislative tampering do not outweigh the disadvantages inherent in limiting the sphere of the finances over which planning and control is exercised. (The fact that many jurisdictions are successfully operating without continuing appropriations and that increasing numbers of states are taking steps to eliminate them indicates that the disadvantages have in practice been greater than any benefits obtained.)

The Periodic Review of Revenue Measures

(Neither the political nor economic factors that have influenced the development of budgetary practices have necessitated a periodic review and voting of revenue measures. Taxes are commonly accepted as permanent or continuing until a specified time mentioned in the law authorizing their collection. Those governments

that provide for an annual reimposition of all revenue measures probably unnecessarily complicate administrative and legislative practices.) (There is no indication that periodic voting has encouraged careful study of revenues at each session and that authorization is anything more than an empty formality.) The real reason lies in the fact that taxation estimates, while important in connection with tax anticipation and borrowing, have no legal significance for taxpayers or tax administrators, except where apportionments are involved. (We are not, therefore, under the necessity of encouraging periodic review beyond the normal revisions necessary for tax reform.) It appears advisable to follow the custom of varying the rates on the specific taxes used for this balancing purpose and of disregarding the other levies unless there is an intent to modify some of the provisions of particular taxes.

In connection with the property tax, where the levy is variable in terms of expenditure needs, rate fixing becomes an automatic function readily performed by the legislature or passed on to some tax administrative body. In cases where tradition and custom have established one or more taxes as balancing variables, as in Great Britain, no specific budgetary legislation is necessarily involved. These taxes usually do not lapse in the new period and remain in force unless the executive or the legislature initiates a change. Such action with respect to tax measures must not be confused with the periodic reimposition of all tax measures.

(Belgium, Denmark, France, Germany, Greece, Hungary, and Italy should be included in the list of those nations that require annual approval of revenue measures.) (It is neither necessary nor possible in modern taxation to review comprehensively the measures at each session. Therefore, in the countries where annual reimposition is called for, it is found to be of a nominal and perfunctory character. The efforts at tax reform that are made are not usually linked to the periodic readoption of tax measures.) There is little or no discussion. It appears to the casual observers that the annual reimposition of all levies, as in France, encourages the manipulation of estimates in order to achieve a balanced program.

All the other surveyed nations follow the practice of the federal government of the United States in which taxes imposed by statute usually do not remain in force for a period coincident with that covered in the appropriation acts. (Tax reforms or rate revisions are not periodic. There are frequent and basic revisions of federal taxes but these are not required by law, nor can it be said that they are always properly timed or otherwise consonant with the budget emphasis on balance.)

As indicated above, there are a few jurisdictions that have accepted the practice of revising the rates of specific taxes although no legal necessity for this exists. (England usually revises its income tax rates and its tea duty rates through the budget if no other provision to meet increased revenue needs is

recommended. The British thus devote greater effort toward the coördination of expenditures and revenue than do any of the countries that require annual review of all revenue measures. In the Irish Free State a modification of the British procedure is noted. The situation has been described as follows:

In the case of more important taxes annual review is frequently called for. An exception to the general rule regarding the permanency of tax measures is found in the case of the income tax and sur-tax. These levies are permanent but the rate at which they are to be collected is determined ~~for one year~~ at a time and it must therefore be reviewed to determine the rate for each financial year.²²

The situation in the (American states) is open to an entirely different interpretation because of the fact that (legal provisions of one sort or another usually require or imply the planning and adoption of a balanced program. This indicates that some periodic review of revenues would be expected. Actually none of the states follow France and the other nations in her group in limiting the validity of tax measures to the duration of the budget period.) Where the property tax is not used in connection with the balancing requirements, no legal or customary revision of all or individual tax rates is voted.

(The use of the general property tax, while limited, is such, however, that in a large number of states there are periodically reimposed rates.) It is the older property tax ideology that is responsible for the existence of this practice as well as for its persistence. To the extent that an adequate collection system is provided, it is an ideal device, second only to the ancient system of the contractual farming out of tax revenues for automatically assuring adequate revenues.

(The property tax periodic vote change is not an example of a budgetary practice offering opportunities for executive and legislative review of revenue measures.) The states act on property tax rates under a legal mandate to follow this particular fiscal policy with respect to the financing of all or a portion of their expenditures. This type of tax policy, to which the states are pledged, loses much of its significance because of the fact that there are other state taxes. (The property levy is used to cover only that portion of the revenue needs not covered by other estimates.) There is also the ever present fact in the states that the provisions are not followed. (The so-called legal mandate to vary the tax rates is merely nominal, offering an opportunity for change that may be disregarded.) Theoretically the device affords an opportunity to keep revenues in line with outlays, but it does not always assure success. The experience of

²² *The National Budget System of the Irish Free State*, unpublished survey prepared for the writer by A. W. Bayne, Department of Finance, Dublin, Aug., 1935, p. 3.

Mississippi prior to 1932, described in the Brookings survey, is a case in point:

Revenue systems are usually based on certain taxes fixed by "Permanent" law, and some one tax that regularly comes up for reenactment at such rates as may be required to provide the balance of revenues needed to meet current appropriations. In Mississippi this elastic element is ostensibly supplied by the ad valorem tax, a millage levy on general property; but in practice the rate that is fixed is based not on fiscal needs but on political expediency. Session after session, appropriations are made, ad valorem rates are fixed, and harsh things are said of tax-dodgers; but at adjournment the balance is usually on the wrong side.³³

(In addition to Mississippi some sixteen states) including Colorado, Florida, Indiana, Iowa, Kansas, Maryland, Montana, New Mexico, Nevada, North Dakota, Oregon, South Dakota, Tennessee, Utah, Washington, and West Virginia, levy a property tax according to a rate fixed to meet state budget requirements. There is no assurance that this represents any adequate coverage for variable state expenditures.) The proportion of property tax yields to total tax collections indicates that the margin which the property tax is called upon to support must be relatively small. Like the fixed mill levies, the variable rate changes within limits fixed by the statutes or constitutional amendments.³⁴

³³ *Report of a Survey of State and Local Government in Mississippi*. Prepared by the Institute for Governmental Research, Brookings Institution, (Washington, 1932), p. 366.

³⁴ Further discussion of the periodic review of revenue measures will be found in connection with the study of budgetary adoption provisions and practices. See Part III.

✓ CHAPTER VII

EXTRA-BUDGETARY ELEMENTS OF FISCAL SYSTEMS

✓ Problems of Extra-Budgetary Finances

Since *budgetary system* is a rather loose and ill-defined term denoting a complex of provisions, actions, and procedures, it is difficult to determine the extent to which fiscal items may be considered to lie outside the scope of the system.) There can be variations only in degree since those procedures that a jurisdiction accepts must be considered to be its particular budget system. (However, by virtue of tradition, custom, and legal conformity, we are able to recognize exceptions and tendencies that may be regarded as being extra-budgetary in character. They are extra-budgetary in terms of the particular jurisdiction's established practice, or they gain their extra-budgetary status by comparison with budget features of similar jurisdictions.) It can be seen, furthermore, that some systems exclude many features of governmental finances which, according to the theoretical implications of the principle of comprehensiveness, should be included within the scope of the budget. *extra-budgetary*

(Criticism is not justified merely because of lack of conformity to a general theoretical principle.) The principle does, however, offer a convenient approach and aids in the segregation of excluded fiscal items. (Extra-budgetary financing is to be deprecated only if the practice is proven to be fiscally unsound and defeats the proper administration of the budgetary system as a whole.)

(In studying the finances of a jurisdiction in which the budgetary system covers only a portion of the fiscal activities, it is difficult to determine whether the practices adopted are encouraged in order to conceal deficits, or whether the deficits are merely a corollary of the breakdown of the standard of comprehensiveness.) Those fiscal items that are not planned and prepared along with others, not guided through normal legislative channels and not coordinated with other fiscal activities, are frequently the ones that we associate with unbalanced budgets.

(It is impracticable to draw a distinction between items that are completely excluded and those that are carried within a particular segregated group linked in some manner or form to the general budget system. The bulk of so-called extra-budgetary items are in close relation to the multiple budgets discussed in connection with the problem of budgetary unity. We may note that it is only when some of these specific-use funds and their accounts are carried wholly outside the regular budget and when their procedures are of a distinctive character, that they constitute truly extra-budgetary items.) In cases where the procedure is not developed to the point of granting a recognized

role to multiple budgets, one must interpret particular items as possessing an extra-budgetary character. (The term *budgetary autonomy* is commonly used to describe both arrangements within a multiple budget system and extra-budgetary items.) In order to facilitate presentation these problems will be discussed in relation to the phase with which they are most commonly associated. (Some features of each factor might be more properly analyzed in relation to comprehensiveness or to unity, as the case may be.) (Public debts and assigned revenues, which are discussed primarily as elements of the unity problem, offer phases involving comprehensiveness) in the case of extra-budgetary highway funds. (The line drawn between the extra-budgetary items here discussed and the multiple budget systems analyzed in the following part is equally arbitrary.) In neither case is an infraction of the basic principle a revelation of the particular motives and circumstances. For certain categories of items it is difficult to find adequate justification. This explains the widespread disapproval of extra-budgetary practices as well as the fact that such activities are frequently a source of fiscal disturbances.

For the purposes of this study, use will be made of somewhat decisive criteria to distinguish extra-budgetary items. These criteria can be traced to the obvious relationship between this problem and that of balancing budgets. (As long as there is in evidence some recognition of the financial effects of a given fiscal activity on budgetary equilibrium, the comprehensiveness of the system may be considered as unimpaired. For this reason general budgets and the other budgets, grouped under such headings as ordinary, current, permanent, effective, extraordinary, non-recurrent, exceptional, temporary, transitional, capital, emergency, and special, may be linked in such a manner as to constitute no infraction of the balance implication of budgetary comprehensiveness.) There is also an opportunity to judge the manner in which the planning, adoption, and execution of an item permits a link to the budget system to be established. (When, however, a function is allocated in such a manner that its financial results do not appear in the recognized and measured balance, it is correct to speak of this as an extra-budgetary item.) In a study in which the emphasis was on the political or administrative aspects, the criteria for classification would be different.

(It will be noted below that the small scope for loan financing, as well as their limited finances, make it difficult for the American states to indulge in the practice of maintaining extra-budgetary items, other than those linked to assessed tax revenues or specifically legalized borrowing. National governments, however, frequently indulge in borrowing. It is a matter of common knowledge that this policy has been linked to programs facilitating the concealment of the true character of a budgetary balance.) In periods of economic and financial stress difficulties in the financing of certain functions and their subsequent re-arrangement within the system may give an indication of their previous status outside the budgetary system.

Types and Characteristics of Extra-Budgetary Items

It is obvious that (the widespread and varied character of fiscal activities does not permit an economical adoption of uniform techniques and procedures. The many activities of the public fisc, spreading out as they do in commercial and industrial channels, can hardly conform to all the rulings to which ordinary governmental expenditures and revenue items are subjected.) Industrial enterprises, in particular, create definite needs for exceptional, if not extra-budgetary, treatment. (Considerations of public policy frequently demand that certain items be withdrawn from the glare of publicity accorded to general budgetary deliberations.) There are, for example, instances where the postponed closing of accounts has made it impossible for some functions to be attributed to the correct financial period. (In such cases the maintenance of extra-budgetary accounts is justified. In others it has been discovered that the length of the budget period makes it impossible to include many of the items in the regular cycle of preparation, adoption, and execution. If it is necessary to adopt for a particular item a financial period other than the fiscal year, it is not featured in the regular preparation program and its elimination from the other budgetary procedures and from the financial plan follows almost necessarily.)

The more common fiscal activities that are granted an extra-budgetary status may be classified as there are several groups into which the segregated items generally fall. (The first can be linked to an increasingly important development, namely, the allocation of fiscal functions to agencies not directly associated with the recognized scope of government and treasury activities. When such agencies, regardless of their legal character, can levy burdens which, at least in their economic aspects, are similar to taxes, can incur debts that may involve an ultimate public obligation, and can take over and carry out functions previously clearly defined within the scope of governments, or when the links to governmental financial policy and leadership are still strong, they may be said to facilitate the existence of extra-budgetary items. In national units political parties, semi-public bodies, autonomous institutions, and private organizations are frequently the vehicles to which are assigned governmental functions that should be included in the budget.)

(In totalitarian nations it has been difficult to determine the lines of demarcation between the activities of the public treasury and those of the dominant political parties whose leadership is synonymous with that of the government.) Particularly in the one-party nations, such as Italy and Germany, it has been difficult to analyze the true division of functions. (Almost all these countries engage in the creation of financial institutions under government sponsorship. Through a guarantee of their securities and otherwise, their activities may lead to an eventual assumption of public burdens. Such semi-public institutions are

frequently found in democratic units. The federal budget system shows that such credit institutions can be brought within the scope of the budget. There are also instances where institutions maintain fiscal activities clearly extra-budgetary in character.) Several federal emergency agencies have at times contributed to minor instances of impaired comprehensiveness.)

(The American states and their political subdivisions, by the limitations on their power to incur debt, have been encouraged to create governmental and semi-governmental entities which incur debts and not infrequently levy property taxes.)

(There exists a twilight zone in which funds flow from the public to agencies that undertake governmental functions and issue obligations which in all respects are considered to be government securities.) The budgetary problems thus raised are general in character and can be related only indirectly to the problem of balanced budgets. A period of financial embarrassment may well cause the return to the fold of items previously removed from the unit's budgetary system. These practices do, however, serve to illustrate further the need for a clear understanding of the scope of public financial activities which the budgetary system of a particular jurisdiction comprehends.

(A second category, found primarily in national governments, deals with the infractions of budgetary comprehensiveness created by governmental enterprises of a commercial or industrial character. It is obvious that some form of segregation for the accounts of these enterprises must be made.) Authorities concerned with the fiscal rather than the political or accounting implications stress the necessity for a breakdown of budgetary comprehensiveness. (It is relatively simple to transform this segregation into a removal of these accounts from the scope of the planning, adoption, and control with which the budgetary system is associated. Such segregation may, however, be advisable and in the best interests of economic and financial development. A specific suggestion regarding this matter has been made by Dalton on the basis of a study of the influence of the economic depression on the public finances of leading countries.

(It would appear also that government enterprises run on commercial lines should, in the interests of the clarity of public accounts have separate budgets, outside the ordinary budget.) Though this is frequently done, it is far from being general. The Polish budget includes government enterprises and in many others the line of demarcation is very uncertain. One of the small, yet nevertheless promising, results of the League of Nations restoration schemes in Central Europe has been to secure a certain measure of budgetary reform by insisting on the separation of the accounts of certain Government enterprises from the ordinary budgets.¹

¹ Dalton, *op. cit.*, p. 324.

A similar conclusion is reached in another survey made by the League of Nations:

There is a marked tendency toward separating the operation of the (undertaking) from those of the administration proper. This tendency goes in many cases so far as to grant them financial autonomy. They may in these cases continue to surrender their surpluses or a part of them to the general budget, or those surpluses or a part of them may accrue to their property.*)

It may be noted parenthetically that a well publicized and well regulated budgetary system, delimited in its scope both by practice and by law, does not at all create an objectionable condition. Those charged with the regulation of finances are not in a position to recommend haphazard inclusion or exclusion of certain items according to temporary influences and conditions. If it were known in France, for example, that all the industrial enterprises and all monopolies of the State were carried outside the budget, there would undoubtedly be pressure for a segregation of these items according to a procedure and a system adapted to their needs. This would conform to sound practice. The French, it will be noted, have no clear cut division of items to be included or excluded. As indicated by Allix² the existence of extra-budgetary items has frequently been justified in France by the explanation that the budget mechanism is above all a device to insure Parliamentary knowledge and control of fiscal affairs. (If Parliament voluntarily decides or is convinced that these activities are not benefited by subjection to normal routine, there is no necessity for burdening a budget with their inclusion.) This argument is typical of an approach to budgetary problems that has resulted from the abuse of immunities originally based on sound economic principles.

(A third group, somewhat akin to the first, comprises a number of activities which, for a combination of political, diplomatic, or administrative reasons, are completely withdrawn from the budgeted or even publicized fiscal activities of governments. Examples of this type of extra-budgetary activity are invariably to be found in national units rather than in the states.) (This category includes extra-budgetary items which for some specific purpose are withdrawn from some phase of political action.) (Examples of this type are not difficult to trace. Countries, in which there are known to have been parliamentary struggles over budgetary matters, are especially prone to agree to withdraw some item from the deliberations and time-consuming features characterizing other items. There are Parliaments and legislative bodies that are notorious throughout the world for their lack of interest and ability to act in terms of truly national interest. Under single-party domination or the influence of multi-party dissension, bud-

* L. of N., Public Finance 1928-35, General, pp. 11-12.

² Allix, *op. cit.*, p. 61.

getary deliberations are usually of a low calibre so far as the exercise of independent and constructive thought is concerned. One needs no further proof than the devices, mentioned elsewhere, provided to enforce legislative interest in routine budget matters. (In the case of single-party domination legislative enactment hints at "rubber stamp" approval. It has at times been felt that any fiscal item withdrawn from the scope of legislative battles and political maneuvers derives benefit therefrom and is subject to less harmful influences.⁴)

At the time of the adoption of any extra-budgetary device there appear to those who force the change (justifiable reasons for making it.) Budgetary procedure, like other fiscal legislation, is endowed with considerable permanency. Inertia and lags are pronounced when there is a question of change or modification. It is in subsequent Parliaments and in the fiscal years that follow that the infractions become troublesome. As in the case of continuing items, the privilege of review or opportunity for a modification of statutes has been always open to Parliament. However, by virtue of the extra-budgetary character of the items in question Parliament is not called upon to make such changes nor are the facts regarding them always included as part of the planned fiscal program laid before Parliament in great detail. It is only under exceptional circumstances that Parliament itself feels the necessity for research, in order to prepare legislation comparable to that which would be enacted if the fiscal affairs of a particular enterprise were placed before Parliament in the regular budget. We have noted elsewhere the essence of the problem created by fluctuating economic backgrounds. (It often becomes necessary to subordinate all expenditures to retrenchment policies, to tighten administration) and to do a great many things that are not so easy to achieve in the case of extra-budgetary items.)

(Vast sums are known to move through governmental channels for unpublicized purposes. Details of their existence come to light, if at all, only in historical records. Armaments, monetary manipulations, subsidies, and international loans are but a few of the activities included in this category; others can be traced only by laborious research.) Because of the character of these activities they offer little of interest or of help in arriving at conclusions regarding the economic aspects of the problem. Some of the specific factors mentioned below in connection with the fourth category might be included here. The principal reason for not discussing them here is that information relevant to this group of extra-budgetary elements is not readily obtainable.⁵ While some

⁴ Allix has explained that Parliament may readily determine which elements of the fiscal system it may wish to exempt from its periodic review and control. *Op. cit.*, p. 66.

⁵ The League of Nations disarmament studies have led to efforts to uncover true totals of national burdens of armaments. Undoubtedly little that nations desired to conceal was revealed. A few items that may escape casual foreign observers because of their extra-budgetary character may have been brought to light. Below is given an innocuous example of such items.

of the extra-budgetary items are of at least limited relevancy to state finances, this category would offer practically nothing that might be of interest.

(Extraordinary fiscal activities, which form the fourth category of extra-budgetary elements in fiscal systems, are frequently responsible for the existence of extra-budgetary items although such activities are more commonly associated with segregated public debt operations and with extraordinary categories in multiple budget systems. Revenues and expenditures not expressed in money terms may be difficult to measure and compare with normal income and outlay. The purchase or realization of assets, as well as the entire problem of defining the budgetary results of changes in a government's capital statement, have been known to involve fiscal activities not planned, adopted, or executed as a feature of the budgetary system.) The foremost difficulty arises from the fact that the estimated values of assets, like optimistic tax revenue estimates, are not always realized. One result is that expenditures made are not considered in relation to current revenue receipts since their ultimate source is to be the assets. The deficit minimizing motive behind France's Budget of Recoverable Expenditures is the classic example of this method of impairing budgetary comprehensiveness.

(Among national governments monetary reforms and related fiscal schemes have recently enabled several of the leading countries to derive vast profits. There has been no uniformity of treatment in relation to placing these activities within the framework of the financial administration. The result is that extra-budgetary items as well as extraordinary segregations within the budgets are created.) It should be noted that periods of financial stress are frequently accompanied by extraordinary fiscal measures, and the problems raised are particularly concerned with impaired budgetary balance.

(Exceptional items may be of a character to which a normal budgetary status cannot be readily assigned. These are functions that are irregular and unperiodic. Nations do not, for example, devalue their currencies and receive gold increment profits as frequently as income tax receipts pour in.) Furthermore, the items are often unexpected or at least uncertain.) The initial elements

The report on Estonia contains the following:

There are certain autonomous establishments for the manufacture of war material (arsenals) which are operated on a commercial basis in accordance with regulations approved by the Government. The budget and accounts of such establishments are not attached to the state budget or general account; nor are they printed or published. The budget, accounts, and generally speaking, all papers relating to the operation of such establishments are subject to auditing by the State Comptroller's department. Their budget and accounts are approved by the Government. (L. of N. Technical Committee, Vol. III, p. 124.)

Similar statements regarding hidden or obscured armament outlays, financed through extra-budgetary accounts, are found in the case of other countries.

that are of considerable magnitude in an economic program are introduced independently of the usual expenditure requests. (There is hardly a jurisdiction that does not at one time or another find some fiscal project that appears to be unrelated to the regular budget program for the year in which it is introduced.) Because of litigation and other contingent events the budget as submitted, or even as voted, does not indicate the items that should be related to results or to the proposed programs for future periods. (For informational purposes it is essential that the proper adjustments be made in order to clarify the status of budgetary balance.) The recent fiscal history of New Jersey offers two examples of revenue receipts which, although not consciously omitted from the fiscal program as submitted by the Governor, nevertheless enriched the State by \$2,500,000 and \$15,000,000 in the years 1935 and 1936, respectively. At a time when the State was facing a crisis regarding the source of relief funds, there was concluded with the Port of New York Authority an arrangement whereby bonds representing a \$2,500,000 indebtedness were made available to the State.⁶ In 1936 the Supreme Court decided the Dorrance inheritance tax case in favor of New Jersey and established an additional state revenue of \$15,000,000.⁷ Prior to this decision it was not known whether New Jersey or the neighboring commonwealth of Pennsylvania would be authorized to levy against the estate of the wealthy decedent. It is, of course, not possible to include such unexpected items in a planned program. With regard to other items, such as the gold increment profits in national units, a variety of reasons connected with the use to which the funds are to be put support the setting up of extra-budgetary and, in most cases, secretly administered accounts.)

(In this fourth group might be included also the various intra-governmental bookkeeping arrangements whereby certain items, not considered to be either revenues or expenditures, are omitted from the normal financial system.) There is a necessary and legitimate place for various trust and fiduciary accounts, and their extra-budgetary character is by no means objectionable or necessarily a source of difficulty or impaired control.) This can be seen in the federal government's handling of such accounts. (On the other hand, the French have shown how these extra-budgetary accounts lend themselves to abuses and to the general disadvantages associated with impaired budgetary comprehensiveness.)

(A fifth category deals with items that normally involve infractions of budgetary unity. There are policies that in many instances lead to the earmarking of funds to cover certain independently financed activities that enjoy varying degrees of budgetary autonomy.) (The practice of assigning the yields of specific taxes and other revenues has led to the creation of specific-use

⁶ New York Times, June 11, 1935.

⁷ New York Times, June 8, 1936.

funds which in both national and state finances constitute extra-budgetary elements.) (This category is responsible for most of the examples of extra-budgetary accounts noted in the American states.) Highway departments in a number of states operate under separate fiscal years and are excluded both from the budget documents and from various budgetary provisions affecting other items. The national units also afford examples of the (assignment of road and of social security funds.)

(There is no reason why the earmarking of specific receipts should lead to any physical segregation of funds or to any extra-budgetary status. All the advantages achieved by budgetary autonomy may be secured by a proper linking of multiple budgets and by accounting arrangements.) (When any function, such as that growing out of some particular economic activity, is isolated so that the surpluses and deficits connected therewith do not affect the general finances, the extra-budgetary character may merely reflect a desired fiscal policy of which the soundness can be questioned.)

Specific-use funds which borrow on their credit and which, unless raided, do not contribute to the general finances of the state, are basically extra-budgetary. If this were not so, it would be necessary to abolish any distinction between the public finances and the budgetary system's coverage.

✓ Summary

It may be well to summarize the examples of the types of extra-budgetary elements found in various fiscal systems here reviewed. It will be noted that the groups are overlapping and that a particular item may well be fitted in several groups. In the groups are included:

- ✓ 1. Functions allocated to semi-public agencies or political parties, or administered by other than the usual governmental departments.
- ✓ 2. Commercial and industrial enterprises involving budgetary demands not properly assignable to ordinary financial categories.
- ✓ 3. Types of expenditure or revenue withdrawn, for economic or political reasons, from some phase of budgetary procedure.
- ✓ 4. Extraordinary items granted special treatment because of their magnitude, irregularity, or some other characteristic that differentiates them from other items of normal finance.
- ✓ 5. Specific-use funds covering functions that are financed by earmarked revenues and are devoid of links to the general budget. They are not part of the normal budgetary processes.

A review of the finances of national and state governments and of fiscal practice discloses many examples in each category.)

The procedures of the national governments are first surveyed. Both current and recent historical examples are mentioned, since an examination of the changing status of the elements that at one time or another enjoy budgetary autonomy should help to disclose the contribution made by these items toward stability or instability. An endeavor will be made to segregate the extra-budgetary elements and to indicate the nature of legal provisions dealing with budgetary comprehensiveness.

CHAPTER VIII

EXTRA-BUDGETARY ELEMENTS OF NATIONAL FINANCES

Great Britain and the Empire Group

(In the case of budgetary comprehensiveness, as in other matters, the so-called British group is advanced in the logic and practicability of its system and in its conformity of acceptable theoretical principles. In all nations possessing the characteristic British type of budget system there are few constitutional or statutory requirements regarding comprehensiveness. Nevertheless, the force of traditional policy is seen to be more successful in avoiding extra-budgetary items than are the legal restrictions found elsewhere.) (The British group, furthermore, by their policy of business-like budgetary and accounting practices in the tax and debt features of the fiscal system create no need for an extra-budgetary status for industrial enterprises.) Strict limitations upon legislative initiation and the concentration of planning in the hands of capable executive agencies are among the other factors which enable the system to demonstrate successful comprehensiveness. The institution of a permanent civil service in high executive posts aids in giving a continuity of policy which is readily maintained. (We do not find in England a change of the executive responsible for budget matters with each change of administration.) Retaining permanent financial Under-Secretaries discourages successive Cabinets and Chancellors of the Exchequer from engaging in budgetary practices based on self-chosen interpretations of the desired policies. Perhaps the basic stability of the British fiscal practices may have another explanation. The few evidences of budgetary autonomy are related to economic schemes of which there has been a greater abundance in other countries with less enviable budgetary reputations.

The one short-lived major British experience with extra-budgetary items, namely the Unemployment Insurance Fund, proved to be unsuccessful, and the discussions of the problem have been replete with warning regarding the results involved in the practice.) Hills and Fellowes state:

It is worthy of note that the departure from these rules (budgetary unity) by which in particular the Unemployment Insurance Fund became in fact a concealed liability led to an unbalanced budget which in turn was the cause of the financial crisis of 1931.¹

¹ Hills and Fellowes, *op. cit.*, p. 14. Also Sir B. Mallet and C. O. George *British Budgets, Third Series, 1921-22 to 1932-33*, (London, 1933) p. 381.

It should be noted that these English authorities do not differentiate, as does the writer, between budgetary comprehensiveness and unity.

The British Unemployment Insurance Fund originally was empowered to pledge its credit on the security of payments to be received from contributions. The excess of burdens and the breakdown of the contributions left the Fund in an over-drawn condition. It became necessary for the borrowings of the Fund to be discontinued and for grants-in-aid to be made to it from the Consolidated Fund, as England's general treasury fund is called. At present the Unemployment Insurance Fund is subject to some measure of periodic control and review in so far as it regularly receives grants-in-aid. Since the reforms in social security financing methods of 1931-34, it constitutes one of the annexed self-balancing categories. Even at the time of its extra-budgetary status, Great Britain's Unemployment Insurance Fund did not represent an item concealed or withdrawn from the nation's interest in fiscal affairs. It was simply considered a segregated phase of the nation's financial activities.

In all other fiscal matters a trend towards an avoidance of fiscal items endowed with budgetary autonomy is noted whenever this is practicable. The Equalization Fund could not naturally be a part of the widely publicized budget accounts and procedures. The British budgetary system, however, was put to a less severe test of adapting itself to new and extraordinary activities than was the French or even our own system. The causal relationships between unorthodox fiscal measures and extra-budgetary practices are difficult to establish, though there is evidence of their existence. British experience confirms this.

In Australia there are no requirements regarding the inclusion of all fiscal items in the budget. At present all fiscal affairs are covered in one form or another in the budgetary speeches and documents and are subject to the control accorded the particular budgetary category to which they belong. The Australian system is sufficiently broad and flexible to allow for the inclusion of irregular and exceptional items within its scope. Flexibility furthered by the absence of statutory limitations is the explanation for the soundness of these systems.

Canada maintains a category of so-called special expenditures and revenues which are not included in the budget. In actual practice it has been found that this category includes primarily expenditure items and that all legislation dealing with revenues is included in the budget. Recently, the special expenditures financing such extraordinary activities as unemployment relief and public works construction have not been presented in the annual estimates covering all other items submitted to Parliament. The magnitude of the items included in the so-called special category is not great. There appears to be a regular and recognized scope for these so-called special items, and their extra-

budgetary character does not signify any disordered or loose treatment.

In view of the fact that India's system allows for a large number of items which are exempt from one or more phases of budgetary control, it is well that there is legislation providing for comprehensive planning. Only the railway budget, exempted by specific legislation, and a few minor outlays which are for functions in connection with imperial relations appear to be omitted from the budget.)

In the Irish Free State there is a specific statutory requirement regarding comprehensiveness. Nevertheless the budget system has a few legalized exceptions. Items that are excluded comprise a few revenue and expenditure items which have achieved an extra-budgetary character through specific recognition by law.² The Irish Free State system, in addition to being the most modern of the British type, is featured by specific enactment of its guiding principles. There is a constitutional provision which links all income and outlay of the national government to the Central Fund, which in turn is the focusing point of all budgetary matters.³ The centralized treasury system can be responsible for a comprehensive budgetary system (if it is not occasionally legislatively invalidated) as well as useful in encouraging budgetary unity.

In the case of New Zealand the record appears to be unmarked and the budget system is said to be comprehensive to the utmost degree.

Whether they avoid extra-budgetary activities or sanction them by law, the British-type systems may be said to offer evidence of practices which do not encourage some of the abuses found elsewhere. Their fiscal administrators are usually forced to consider all financial activities in relation to their total influence on the financial situation.

Sweden and Soviet Russia

(Sweden and Soviet Russia appear to be the sole nations reviewed, like Great Britain and some Empire units, having no direct or indirect requirements regarding the inclusion of all fiscal items in the budget. In both countries, however, the general practice has been to include all items within the scope of the system.) In Sweden there appear to be some relatively unimportant revenues which are independent of parliamentary action.

² In addition to appropriations-in-aid, other exceptions covered by specific legislation include the finances of the Land Purchase Acts, the National Health and Unemployment Insurance Fund, and the Church Temporalities Funds. It is probable that these activities may be considered segregated within the budget system.

³ All revenues of the Irish Free State (Saorstát Éireann) from whatever source arising, shall, subject to such exception as may be provided by law, form one fund, and shall be appointed for the purpose of the Irish Free State in the manner and subject to the charges and liabilities imposed by law. Irish Free State Constitution, Art. 61.

Their rôle in the fiscal system is insignificant. It should be noted that (the usual source of extra-budgetary items (public debt and ~~industrial and commercial activities~~), for which there is a potentially large scope in Sweden, have been granted budgetary recognition.) The numerous government business enterprises in Sweden represent a large proportion of the entire national economy. They are all included within the budget, as are all capital fund operations. Prior to 1933-34, the Liquor Fund was maintained outside the scope of the system. It was subject to rigid restrictions and specific enactments concerning its own management and cannot be considered to have represented the worst type of extra-budgetary agency. The Liquor Fund has since been coordinated with the other fiscal elements in the budget system.⁴

(As far as Russia is concerned the writer has been informed by an authority on their system that all important expenditure and revenue items are included. There the problems are such that they could be treated only if questions of Soviet finance, economics, and political structure were themselves subjects of greater study. In a collectivized society the usual drive towards, and fiscal reaction of, extra-budgetary items cannot be measured by the usual standards.

France

(In the following group of nations there are specific statutory provisions calling for the prevention of extra-budgetary items. France, in this group, nevertheless offers what are outstanding examples of extra-budgetary items.) The French have gained a reputation for their prevalence by numerous assignments of revenues to specific expenditures and by treating each such dedication as an occasion for creating an extra-budgetary feature of their fiscal system.⁵ In addition, the many industrial and commercial enterprises of the State, such as the railway system, have been exempted from several provisions of the budget, including the special features which have been introduced in the efforts to facilitate the comprehensiveness of the system.)

Under a scheme adopted in 1920⁵ a self-balancing railway budget, having both an ordinary and extraordinary category, was annexed to the general budget. The deficits which the State railways incurred were believed to be caused by the unbusiness-

⁴ In Norway, Sweden's adjoining neighbor, a few extra-budgetary funds are maintained.

There are various special funds, administered by the corresponding departments, outside the general budget. Their receipts are derived mainly from interest on their capital, and, in a few cases of taxes of minor importance, are applied to covering their expenditure. The receipts and expenditure of the State Road Regulation Fund are, however, included in the general budget. This also applies to certain items of the receipts and expenditure of a few other special funds. L. of N. Pub. Fin. Norway, 1928-35, p. 3.

⁵ Law of Feb. 9, 1920.

like interests of Parliament and its Commissions of Finance. One of the 1926 reform laws granted complete budgetary autonomy to the railway items.⁶ The budget is approved by ministerial decree. The Ministers of Public Works and of Finance report on financial accomplishments to the Finance Commission of the Chamber. Budgetary autonomy implies, in the case of the railways, the absence of any voting by Parliament of both the original and supplementary appropriations, the issuance of its own obligations, and the independent maintenance of its accounts. (The railways usually appear to be causing deficits in the national budget in spite of their autonomous character.) Allix, writing in 1931, points out that the budgetary autonomy was intended to be only temporary.⁷

(Foremost of the items outside the budget are the Sinking Fund⁸ (*Caisse d'Amortissement*) and the social insurance scheme.⁹)

The former, an autonomous account, was introduced by Poincaré as a feature of his "Save the Franc" policies incorporated in the 1927 budget. It is natural that the time and circumstances of its introduction, as well as the character of the outlays, prevented the *Caisse* from being part of a loan-financed scheme and encouraged its segregation from the other elements of the fiscal system.¹⁰ As in most other jurisdictions, the social insurance schemes involve features which are incompatible with the usual budgetary practices and which require segregation of funds. An autonomous regime for the items of the social insurance program is maintained. Almost every jurisdiction finds some difficulty in adjusting its social security schemes in the framework of its normal budgetary system.

(A highly complicating factor in French finances and their budgetary implications is the fact that the French Treasury carries out fiscal functions which are not merely administrative.) In commenting on this Haig has noted:

(3) Theoretically the French Treasury is supposed to have no sources of revenue. It is supposed to act merely as "banker" for the budget, advancing funds which it borrows, and being

⁶ Allix, *op. cit.*, p. 174.

⁷ *Ibid.*, p. 175.

⁸ Law of Aug. 7, 1926.

⁹ Law of April 5, 1928.

¹⁰ In commenting on the establishment of the *Caisse*, Haig notes that "part of the floating debt represented by the *Bons de la Défense Nationale* and the *Bons Ordaires du Trésor* was removed from the Treasury's charge and taken over by the autonomous *Caisse d'Amortissement*. To cover the interest payment on these bonds, and any that it might issue itself, the *Caisse* was to have the net revenues from the tobacco monopoly (which it was to manage itself) and such subventions from the general budget as might be needed; and for amortization purposes it was to have the total receipts from the inheritance and estate taxes, and the new 1% tax on first sale of real estate and businesses. These revenues no longer appeared in the general budget." Robert M. Haig, *The Public Finances of Post-War France* (New York, 1929), p. 167.

repaid from the budgets. Actually, however, the Treasury during the post-war period did develop certain tax revenues, quite independent of the budgets.¹¹⁾

The special treasury accounts, known as the (*services spéciaux du Trésor*) or the *services hors Budget*, are important from a budgetary point of view because of the revenue items which are therein segregated. (Their relation to the measurement of budgetary balance in any particular period is considerably obscured.)

(The accounts can best be described as trust funds.) In them are segregated expenditures and revenues which are not definitely available and which must wait on future developments for their eventual realization. Transitory items which are returnable to third parties are, for example, allocated to the Treasury accounts. From a theoretical point of view one can hardly deny the justification of a desire to segregate and to grant a special budgetary recognition to such elements in the fiscal system.

If they were linked together with the regular receipts and outlays, budgetary totals would be misleading. Jèze emphasizes that these special extra-budgetary accounts serve to prevent false interpretations of budgetary balance.¹²

At the end of any specific period the accounts may show an excess as far as either revenues or expenditure is concerned. The nature of outstanding commitments should indicate an eventual balance. (Were such items included in the scope of the ordinary budget they would place a wrong interpretation on actual expectations or accomplishments.) Allix justifies segregation on the score that borrowing which bears no relation to deficit financing may be required and that assignments of particular receipts are necessary.¹³ (The French) as noted elsewhere, (concede budgetary autonomy to most items financed by earmarked tax revenues.)

(The history of these accounts indicates that they have deteriorated, regardless of their initial motivation, into what has been figuratively described as "*petits budgets extraordinaires occultes*."¹⁴ Sums are removed from the scope of Parliamentary control, and floating debts, which not infrequently conceal deficits, are incurred. A regrettable confusion of budgetary matters is brought about by a constant shifting of new accounts. The dual abuse found in connection with extra-budgetary elements, namely uncontrolled and excessive expenditures, is a chief result of their existence.)

A large number of Treasury accounts was found in France before and during the war. The liquidation of materials and costs and other post-war features led to a rerudescence of their use. (Relief work, the conversion of American war materials, and the

¹¹ *Ibid.*, p. 51.

¹² Jèze-Nenmark *op. cit.*, p. 272.

¹³ Allix, *op. cit.*, pp. 110-11.

¹⁴ *Ibid.*, p. 106.

alcohol monopoly were among the activities financed by means of revenues segregated in such accounts. The tremendous losses and the scandalous abuses which were associated with the existence of these autonomous accounts, many of considerable magnitude, led to their gradual discard.) More recently they have been reintroduced in order to finance the social and economic program of the government, much of which is likely to lead to the usual difficulties. A good many of the activities could be fitted into the scope of the budgetary system.

Prior to the drastic efforts made in 1926 to stabilize the French finances, French fiscal history was replete with extra-budgetary elements, some of which are not evident in the last few years. (Foremost of course is the famous "Budget of Recoverable Expenditures.") No discussion of extra-budgetary practices in France and their influence on the course of French finances can be essayed without recognizing it. (It ranks, along with Germany's post-war practices, as the best example of the disruption of a financial and economic structure occasioned by a budgetary practice which segregated and obscured monumental outlays and which failed to link them to tax revenues or planned borrowing.) This special account, later officially known as the *Budget des Dépenses Récouvrables*, was introduced by Finance Minister Klotz in 1920.¹⁵

(It was proposed to segregate a large volume of expenditures which were to be financed by German reparation payments received through the special account.) Although the exact amount of Germany's indebtedness was not fixed, it was thought to be sufficiently large to allow almost any desired expenditure to be carried through the new budget. In the first year of its adoption¹⁶ 22 billion francs were appropriated from it, in comparison with a total estimate of national expenditures of 47½ billions. (Until its suppression in 1926 vast sums were poured out. Naturally the failure to realize German payments to the desired extent meant that the government borrowed every franc that was not covered by regular revenue sources. It had a demoralizing effect on the French attitude towards economy and tax burdens.)

(This French reparation account offers one of the best examples of extra-budgetary devices linked to activities to be financed by funds which are realized from doubtful assets.) What is involved here, as in almost all of these items, is some attempt to justify borrowing which, unadorned, might be clearly connected in the public mind with deficits.

The establishing of the present French Stabilization Fund, unlike that of similar funds in other nations, has not given rise to another extra-budgetary development in the financial system. There are indications that the part of the devaluation profits

¹⁵ Haig, *op. cit.*, p. 61.

¹⁶ *Loi de finances du 31 Juillet 1920*. The budget program for 1920 was voted after considerable delay.

which have not been earmarked for the Fund have been budgeted in a manner not subject to severe criticism.¹⁷

In conclusion, it may be stated that the (French have been justifiably criticized for inefficient practices which may be linked to their wholesale disregard of budgetary comprehensiveness.) (Examples of practically every category of extra-budgetary items can be found in the French financial system. The French finances are notorious for the existence of fiscal elements which, unobserved by Parliament or the public, pile up deficits, encourage abuses, and destroy all the attributes of a comprehensive and unified budgetary system.) (The situation is all the more deplorable because the French have shown no uniformity in their policy of budgetary autonomy.) Parliament is constantly adopting a new policy for some type of item. For example, the alcohol monopoly and numerous other special activities are carried within the budget while the railways are not. A new attitude towards budgetary comprehensiveness in French fiscal practices would find a large potential field for reforms. Of late the Popular Front governments have been endeavoring to simplify financial matters. They have already clarified the rôle of the Treasury in financing some of the extra-budgetary accounts. This appears to be a step in the right direction.

United States Federal Government

The United States may also be included among the group of nations which have, in one form or another, statutory requirements regarding the inclusion of all fiscal items in the budget as submitted by the executive to the legislature.¹⁸ (The infractions found in the United States are indeed negligible and our budgetary system may be considered to rank among the foremost with respect to its comprehensiveness, particularly as measured by initial planning.) Several government-owned agencies, including the Panama Railroad Company and the Inland Waterways Corporation, enjoy an autonomous status which is based on specific statutory enactment.¹⁹ Among credit agencies owned entirely by the United States, the Federal Intermediate Credit Banks and the Production Credit Corporations should be mentioned because of their extra-budgetary character. Among the agencies of which the federal government is only part owner, the Federal Land Banks for Coöperatives and the Federal Home Loan Banks should be cited for similar reasons. (These represent an insignificant minority compared with the vast category of comparable activities which are linked to the budgetary system.) The amount of funds allocated to these agencies is so small that the extent

¹⁷ N. Y. Times, Oct. 29, 1936.

¹⁸ Budget and Accounting Act of 1921 (42 Stat. L, 20 Title II, Sec. 201 (a).)

¹⁹ Marshall E. Dimock *Government Operated Enterprises in the Panama Canal Zone*, (Chicago, 1934). Chap. III, "Relationships Control."

of the abuses which the policy creates is negligible. None of the agencies enjoying an extra-budgetary status can borrow through issuing obligations with governmental guarantees.

There are, in the case of the United States, a few factors which indicate reasons for the success in the maintenance of a comprehensive system. A somewhat greater respect for statutory enactment characterizes federal procedure than that which is found in several other nations or the states. Furthermore, the various other restrictions and limitations make it impossible for any specific benefits to be derived from an extra-budgetary status. Pledging of credit and several other policies which foster extra-budgetary items are absent. It is noted, furthermore, that no requests for funds may be made for administrative officers except through the regular budget channels. The strict application of this practice tends to make a notorious exception of any agency that communicated its financial requirements direct to Congress without going through the budget-minded executive officers. It will be noted, furthermore, that in the federal government, as in the case of other national units and the bulk of the American states, the budget message consists only of recommendations and suggestions. Since the legislatures in this case are not bound at all by the inclusion of specific recommendations in any direction, they have not felt at any time the necessity of excluding specific items. (There exists) therefore, for the executive, the agencies, or the legislature, no incentive to defeat the expressed wishes of the budgetary enactment. It is evident that the total absence of any restriction on the actions of Congress offers no incentive for legislators to seek an extra-budgetary status for their favored appropriations in order to escape executive control. The system is inherently loose following the initial planning stage and offers few obstacles to practices towards which exception might be taken.

In recent years there have been a number of fiscal items, for the most part new in character, for which a complete and satisfactory budgetary recognition has not been found to date. Such items as revolving funds, specific assignments (in so far as they temporarily escape judicial overthrow), and executive allocations may well have led to a temporary breakdown of the comprehensiveness reputation which the system still unquestionably deserves.

A quotation from the "Report of the Special Committee on Federal Expenditures" of the U. S. Chamber of Commerce will serve to show how some of the early New Deal finances were said to be budgeted. The Committee stressed the extra-budgetary character of some of the emergency items, stating:

There have been created a large number of organizations which have combined spending power of stupendous proportions which are largely or entirely independent, and in practical effect outside of the regularly planned and executed budget.

* * * It is true that the amounts expected to be spent by these various agencies were included in the last budget, but mostly in lump-sum totals with no details. There is, moreover, no active central control over their spending and no means whereby their expenditures can be coordinated with each other or with the total expenditures. For a time their accounts were not even audited by the Comptroller General, but this has been changed by executive order. An executive order was also issued giving the Budget Bureau supervision over their expenditures. This was, however, rescinded very shortly after its issue.

The importance in the fiscal plan of these organizations functioning largely or entirely outside of active central control is illustrated by the magnitude of their expenditures. Total expenditures of the federal government in the fiscal year 1934 were approximately 7 billion dollars. Of this amount about 3 billion were classed as ordinary, while 4 billion were designated as emergency. In other words, during the last fiscal year the major portion of the expenditures were not under control of the budgetary agency. Emergency appropriations for the fiscal year 1935, which under present conditions will be similarly uncontrolled, are more than double those for ordinary expenditures.

This situation not only results in uncoordinated and uncontrolled expenditures, but since no one agency has knowledge of proposed expenditures it becomes exceedingly difficult to compile budget estimates and develop a fiscal plan. This situation is well brought out by a statement in the last Presidential Budget Message to the effect that: "By reason of the fact that the Budget Bureau has had no control in the past over the various expenditures, obligations, and allotments made by the emergency organizations, the task of preparing the present budget has been the most difficult one since the Budget and Accounting Act went into effect in 1921."²⁰

Since this statement was made, (President Roosevelt has made efforts to place the recovery agencies, which originally had been exempted by the provisions of the legislation creating them, under the basic budgetary procedures.) In September, 1935 seven agencies²¹ were placed by Executive order under the provisions of the Budget and Accounting Act of 1921.²² Seven other agencies,

²⁰ *Referendum No. 67 on the Report of the Special Committee on Federal Expenditures*, Chamber of Commerce of the U. S. of A., Washington, Oct. 12, 1934, (hereafter cited as "Report of the Special Comm. on Federal Expenditures") p. 24.

²¹ Agencies mentioned were the Agricultural Adjustment Administration, Commodity Credit Corporation, Federal Coordinator of Transportation, Federal Emergency Relief Administration, Federal Emergency Administration of Public Works, National Recovery Administration, and the Tennessee Valley Authority.

²² N. Y. Times, September 5, 1935.

under an Executive order issued August 5, 1935, had been requested not to incur obligations for administrative expenses after September 15th of that year without prior approval of the Budget Director.²³ Another order of August 19 had placed six other recovery and relief agencies under the same requirements, except that October 1 was named as the effective date.²⁴ The final order of September 4 increased the number of agencies to twenty. Only the Civilian Conservation Corps remained outside the jurisdiction of the Budget Bureau. The administrative expenses of this agency were stated to be relatively small.

It should be noted that these agencies were only in a limited sense outside the scope of the budget system. The chief change brought about involved the subjection of the administrative expenses of the agencies to the processes of planning, adoption, and execution accorded the similar outlays of the permanent agencies. The previous plan allowed the administrator to make expenditures within the amounts specified by the original basic grants with no requirement for the approval of the Budget Director or any conformity to previously prepared estimates. Some privileges with regard to salary classifications and other phases went with the nominal extra-budgetary status. All the affected agencies were required to submit estimates for the 1936-7 fiscal year by October 15th. The orders permitted the Director of the Budget to modify the expenses, to be apportioned on a monthly basis, in the event of an emergency. Beginning with the fiscal year 1938 the administrative expenses of these agencies will in many cases be limited by statute.

From the point of view of governmental records and the measurement of the fiscal balance, the activities of these agencies were not individually reported or otherwise concealed. The Budget Bureau could not, however, exercise its efforts towards economy since the agencies continued to make outlays in the manner of "no-year" lump sum appropriations. It is interesting to note that the press reports alluded to the Executive orders as a major reform leading to the elimination of an important extra-budgetary element in the fiscal system.

Since recovery has begun, the federal government has been enjoying a greater success in recouping funds lent to domestic debtors than it has with international debts. (The policy of setting up revolving funds for the lending agencies which are realizing their security collateral or are being repaid outstanding loans has been subjected to some criticism. The fact that the Administration has placed emphasis on its assets as a potential source of

²³ Federal Home Loan Bank Board, Home Owners Loan Corporation, Federal Savings and Loan System, Federal Savings and Loan Insurance Corporation, Federal Housing Administration, Farm Credit Administration, and Federal Farm Mortgage Corporation.

²⁴ Federal Deposit Insurance Corporation, Federal Surplus Relief Administration, Export-Import Bank of Washington, Second Export-Import Bank of Washington, Reconstruction Finance Corporation, and Electric Home and Farm Authority.

funds for a retirement of its public debt is responsible for a large measure of this criticism, since the revolving fund methods permits the payment of administrative expenses and non-repayable grants out of funds received from debtors. There is no doubt that a policy of considering debt repayments as national receipts and of financing the current activities of the agencies through budgetary appropriations might necessitate a basic revision in recovery agency financing. (No extra-budgetary aspects are involved, but it should be noted that the realization of assets is a difficult activity to interpret in terms of balancing expenditures against revenues in a particular period)

(An analysis of the budgetary implications of the much publicized gold increment profit and its administration shows that the federal government has carried these items within the regular accounting and budgetary framework.²⁵) The exceptions which center around the disposition of the \$2,000,000,000 turned over to the Exchange Stabilization Fund²⁶ are understandable in view of the special character of the outlays. The other uses for which payments from the gold increment profits were authorized were payments to the Federal Reserve Banks, the establishment of credits in favor of the treasury of the Philippine Islands, meeting losses in melting gold coins, and national bank note retirement. As of June 30, 1936 expenditures chargeable against the increment on gold totalled \$2,516,851,408.77 out of a total profit of \$2,813,898,240.90 derived from the devaluation.²⁷ For obvious reasons the expenditure items, which have not yet resulted in completed transactions, can be traced only with some difficulty in the government records. The operations of the Stabilization Fund are not publicized. It is important to note that, unlike the French government's power over the devaluation profits, the uses of the Stabilization Fund moneys, when the assets are disposed of, are restricted. They must, under present legislation, be turned back into the Treasury and can not be spent for any purpose except under specific Congressional authority.

(In general, with respect to the elimination of extra-budgetary elements in its federal fiscal system, this country now ranks with Great Britain. There were, however, some practices connected with the early recovery outlays which, if continued and developed instead of checked, might have resulted in marked breaches in some phases of the comprehensiveness of the system.)

Belgium and Denmark

In several countries constitutional requirements regarding budgetary comprehensiveness are found. Among these are Belgium and Denmark. In both these nations constitutional provi-

²⁵ The writer is indebted to Mr. A. B. Hersey of Washington, D. C. for an analysis of the gold increment developments on which this statement is based.

²⁶ Gold Reserve Act, *op. cit.*, Sec. 10.

²⁷ A. B. Hersey study, *op. cit.*, p. 4.

sions are rigidly adhered to, and there are no fiscal affairs which are not comprehended in the regularly submitted budgetary estimates and subsequently enacted finance laws. There does not appear to be any indication that any fiscal activities are segregated in a manner which would indicate budgetary autonomy.

Germany

The German budgetary law, embodied in the (Weimar Constitution), was formulated in terms of budgetary principles. Among these is the comprehensiveness principle.) According to the *Reichshaushaltsplan*, revenues and expenditures of the Reich must be inserted in the Reich budget.²⁸ (The budget carried several legalized exceptions) which were frequently established under the constitutional clause which permitted exceptions approved by the Reichstag. (These were primarily for the industrial and commercial operations of the State.) The usual budgetary requirements for control and other administrative features with respect to salaries were not removed. It was only in connection with stated administrative aspects that these items were segregated. (It is questionable if these items were truly extra-budgetary in character. Under the common interpretation of the principle of comprehensiveness, which would include the subject matter here treated in terms of budgetary unity, the Germans have considered the existence of separate budgets for the alcohol monopoly and the postoffice as an infraction of budgetary comprehensiveness.)

(In general, it may be stated that the German standards did not permit any of the questionable extra-budgetary practices.) Unless the agencies which received some measure of budgetary autonomy had resources or receipts of their own, their revenue needs were covered by budgetary sources.) Actually the agencies are apparently considered as extra-budgetary because only net surpluses or deficits appeared in the budget.²⁹

There is ample indication that, since the downfall of the Republic and the suspension of the legal requirements under which the budgetary system of that regime functioned, a large proportion of the Reich's financial activities are extra-budgetary in character. In terms of planning, adoption, and execution, which are significant phases of the commonly conceived conception of a budgetary system in this country, a large part of the income and outlays of the Reich may be labelled extra-budgetary. The absence of any legislative control or any opposition criticism, a close linking between government and the dominant party's policies, and the existence of semi-public institutions, secret funds, and a general absence of publicity are but a few of the factors which explain the prominence of extra budgetary elements. One of the many indications that these exist is the fact that there are many

²⁸ Weimar Constitution, Art. 85, Sec. 1. A similar clause was embodied in the *Reichshaushaltsgesetz*, Sec. 7, Art. 1.

²⁹ Neumark, *op. cit.*, pp. 135-141.

agencies borrowing on the government's credit and that this debt is not considered in connection with the periodic statements of income and outlay) In some totalitarian states the theoretical discussions and the legal frameworks may still be of interest to students of budgetary problems in democratic government. Germany's recent practices, however, are of limited interest.

Other Nations

Greece, Hungary, Italy, the Netherlands, Rumania, and Turkey conclude the list of those countries that have been surveyed and in which there are statutory requirements dealing with the comprehensiveness of their budget systems.

In Hungary the inclusion of all fiscal items in the budget is prescribed by the basic accounting law. Under statutory exemptions several special autonomous funds have been set up. However, these are stated to be fiscally unimportant. They include a property redemption fund and the funds which are maintained in connection with the agricultural bounty system.⁵⁰ It is questionable whether the extra-budgetary character of these items is an objectionable practice.

In Italy there is a specially legalized highway budget. As will be shown later this budget includes the assignment of the motor vehicle tax levied for road building purposes. In terms of the control and publicity to which it is subjected and of the necessity for segregation because of its particular character, it is difficult to consider this budget as constituting an extra-budgetary factor. Because of the assignment feature and the semi-public character of the Royal Automobile Club, which administers the tax, it does not appear among the annexed budgets for the self-balancing items. To the extent that its expenditure and revenues are adequately estimated, any relaxation of legislative control, which its extra-budgetary status would elsewhere denote, may be disregarded as far as Italy is concerned. There appears to be some

⁵⁰ The League of Nations survey reports:

There are various special funds outside the general budget, some of which represent foundations and endowments instituted by private persons and administered by the corresponding department, while others represent funds of a public character. As from 1932-33, certain funds of the latter category have been discontinued and their receipts and expenditure included in the general budget of the State. The most important among the special funds was the "Boletta" Fund, instituted in 1930, in order to grant a bounty to wheat producers by means of a ticket ("boletta"), with which every purchaser of wheat was required to provide himself. As from 1932-33, the Boletta Fund was transformed into an Agricultural Relief Fund, but the boletta system was maintained—with some modifications—until the end of 1933-34. Since 1932-33, special taxes have been introduced and used for relief to agriculture. Further, there must be mentioned the Capital Levy Fund, the Communal Relief Fund, the Farmers' Debt Settlement Fund and the Emigration Fund. Most of the other special funds are of minor importance, as their receipts and expenditure in most cases do not exceed some thousands of pengö. L. of N., Pub. Fin., Hungary, 1928-35, p. 2.

uniformity in the manner in which the deficits and surpluses are carried directly to the Treasury accounts. They affect the cash balance as well as the public debt but do not appear as budgetary items. The exclusion from the budget accounts establishes the extra-budgetary status of the highway budget for the purposes of this study. With respect to all other items it is claimed the provisions requiring the inclusion in the budget of all items are rigidly adhered to.²¹ Admittedly, there can be no knowledge of whether or not exceptions exist since the usual type of checks or controls afforded by changing governments, legislative inquiry commissions, and outside observers are lacking. The financing of the military expedition into Abyssinia afforded a recent opportunity to note the unpublicized character of financial operations.

To the casual observer, the various special funds which are maintained within the scope of the budgetary system appear capable of including without any difficulty all the various operations of the government. The setting up of semi-public bodies which control large portions of the nation's commercial credit and industrial activity has led to borrowing on government guaranties. It would require a searching analysis to reveal the extent to which the budgetary equilibrium is affected by the operations of the credit institutes and the other agencies. The national Fascist Party offers some other potential difficulties in measuring the comprehensiveness of the budget system. As a separate organization the Party has its own budget and is said to receive no government funds. Under the jurisdiction of both the Party and the Ministry of Corporations, the various syndicates of employers, artisans, and professional men levy taxes and carry on numerous functions and activities involving financial costs and burdens. The manner in which the costs of certain governmental activities administered by party units are handled is not clear.

In Greece there is a budgetary provision similar to that found in the American states. It requires that legislation involving revenue and expenditures which may be enacted outside the scope of the budgetary recommendations does not become effective until the regular budget has been adopted and funds provided for activities previously authorized and included within the budget. There is evidence that the State railways form an autonomous public undertaking and that they do not lie within the scope of the budgetary system. Conclusive evidence of this condition is found in the fact that the accounts are maintained on a calendar year basis which varies from the fiscal year of the regular budget.²²

²¹ Letter to the writer from Professor Ernesto D'Albergo, Milan, under date of June 8, 1935.

²² The League of Nations survey reports:

"The general budget included up to 1932-33 capital expenditures on contribution to the railways covering mainly their service to debt. From 1933-34 the corresponding amounts are included in the debt service." Although the basis for recognition has not been made clear, the League of Nations study states that the budget system comprises the general budget, the budget of the State railways, and the budgets of

There are, however, certain links which tend to nullify interpretations in terms of complete budgetary autonomy.

In The Netherlands a statutory requirement with respect to comprehensiveness is rigidly adhered to. Within the framework of the budgetary system all items are included.

In Rumania there are two chief reasons why the provisions regarding the inclusion of all fiscal items in the budget have been observed. Foremost among these is the fact that a period of financial stress and difficulty with respect to credit operations has required a strict attitude on the part of the government towards budgetary control and balancing. Here, as elsewhere, we note that no financial benefits can accrue to any units that do not subordinate their interests to those of all other agencies. All autonomous funds and the various commercial and industrial enterprises have been brought within the framework of the budgetary system. Secondly, in Rumania as in several other countries, the influence of foreign creditors on observance of sound budgetary practices has been noted. Because of the extraordinary budget accounts that are found, it is necessary to grant a rather liberal interpretation to the standards of comprehensiveness applied to this country.³³

Turkey is also among the nations mentioned as having particular requirements regarding comprehensiveness. There has been no indication that this requirement has been modified or that there has been a failure to adhere rigidly to it.

Data on two other nations, in which government expansion in commercial and industrial enterprises is great, indicate further the differing practices towards budgetary autonomy.

In Czechoslovakia the budget system comprises the general budget and the public undertakings. The general budget includes the gross receipts and expenditures of the several monopolies (salt, saccharine, and explosives) as well as the net proceeds or deficits of the various state business undertakings. The system appears to consist of a planned segregation with established links to the general budget.³⁴ It is a type of system which is recom-

the various special funds. This may be said to refute any extra-budgetary character of the state railways. At another point, however, on the same page, we are informed that "the general budget includes gross receipts and expenditures of the administration proper, of the state monopolies, and of public undertakings (except state railways)." L. of N., Pub. Fin., Greece, 1928-1935, p. 3.

In any event there is some extraordinary status accorded to the finances of the State railways, a common occurrence in countries in which railways have been nationalized.

³³ Rumania's neighbor Bulgaria was reported to have a few minor instances of extra-budgetary elements. "All State Expenditure is included in the general budget, but the Pernik State Mines (coal mines) and the State Railways, have autonomous administrations and budgets which do not form part of the general budget. The expenditure in the case of the railways is, however, subject to the same scrutiny and supervisions as other State expenditure." (L. of N. Technical Committee, Vol. III, p. 80.)

³⁴ L. of N. Pub. Fin., Czechoslovakia, 1928-1935, p. 4.

mended by budgetary authorities and which the League of Nations has attempted to introduce in the countries under its financial administration. Budgetary autonomy and a resulting relaxation of control and publicity can be avoided.

In Switzerland the operations of some of the federal enterprises are treated outside the normal budgetary procedures and accounts. These include the federal railways, which have a special budget and may be considered as independent enterprises. The railway budget, although voted by the federal assembly, is treated separately. The debt of the federal railways is likewise segregated from the normal public debt. In the accounts some link is obtained by virtue of the fact that a summary is annexed to the final accounting. Other federal enterprises, including explosives, agricultural enterprises, and the post, telegraph and telephone services, are linked to the general budget through the system of multiple budgets.⁸⁵

(Summary and Conclusions) ✓

The practices noted in the national governments bring out several factors which are of interest to the problem under study.

(First, the burdening of statute books with requirements regarding comprehensiveness is of little value. Amendments, legalized exceptions, and disregard for the spirit of specific statutes destroy the usefulness of these provisions in assuring a broad jurisdiction for the budgetary system.)

(Present British practices show that custom and tradition, as well as underlying accounting, banking and other administrative factors, are of primary importance in discouraging extra-budgetary items. The French lack a clarified system of national borrowing and have no general fund concept; these factors would have tended to minimize the abuses which have been made possible by some of the extra-budgetary elements of the fiscal system)

(Second, it is evident that economic, financial, or political reasons require and justify the granting of an extra-budgetary status to some fiscal items. For this reason the theoretical implications of the principle must at times be disregarded. The principle must be employed only as an analytical device.) It permits the observer to note the actual budgetary and fiscal practices in relation to the desires which motivated segregations outside the normal budgetary system. (There are numerous instances of impaired comprehensiveness which illustrate the adjustment of the budget machinery to a particular fiscal policy which has not encouraged or facilitated deficits, concealed borrowing, or otherwise hampered control.)

Third, it can be noted that there are potential dangers in the choice of fiscal policies which justify extra-budgetary segregation. This is true particularly in units where abuses are likely to occur. The manner in which an extra-budgetary status can minimize control and publicity and can postpone an unpleasant day of

⁸⁵ L. of N., Pub. Fin., Switzerland, 1928-35, p. 4.

reckoning is evident. Logical justifications give way to political expedience)

Credit standing and confidence are associated with a balanced budget. In order to achieve the desired equilibrium, concealment, overvaluation of assets and the creation of new agencies to absorb the liability for increased debts may be encouraged. (There seems to be a strong case for doubting the wisdom of choosing fiscal policies which require a modification of traditions of comprehensiveness.)

(In conclusion, it can be stated that the extra-budgetary elements are frequently compatible with neither the usefulness of the budget system as an instrument of control nor with the best financial and economic interests of governments. The items have been the source of great difficulties, some undoubtedly avoidable, during periods of fiscal crises.)

CHAPTER IX

EXTRA-BUDGETARY ELEMENTS OF STATE FINANCES

The Problem of Extra-Budgetary Elements of State Finances

The prevalence of continuing items, not subject to the periodic measure of control inherent in an effective budgetary structure, has already accounted for a large degree of impaired comprehensiveness in American state finances. It is, nevertheless, possible to discover (further aberrations from an acceptable concept of this principle.) Buck, most noted authority on budgetary affairs in the United States, has summarized the characteristic status of comprehensiveness in the American political subdivisions as follows:

(In many state and local governments, the stock method of producing a balanced budget is to omit the requirements for certain governmental agencies and funds.) This method is sometimes pursued in direct violation of legal provisions prescribing that all proposals for financing the government must be shown in the budget.) As to what agencies or funds are included in, or excluded from, the budget, no uniform rule is applied. (Agencies supported by mill levies, dedicated funds, or permanent appropriations are sometimes left out, sometimes put in.) This is true, likewise, of public agencies of a self-supporting nature, such as business and industrial enterprises. The requirements for public works are frequently excluded from the general budgets of state and municipal governments on the pretext that the necessary planning for such works cannot be done at the time the budgetary estimates are prepared. In many of these governments the budget is little more than a program for current expenditures out of the general fund, (the receipts and expenditures of special funds being altogether omitted.) Among the latter funds are the moneys secured from the sale of bonds. It is erroneously assumed on some quarters that such monies should be reflected in the general budget only upon payment of the principal and interest on outstanding bonds, since this is thought to be the only phase of the expenditure which directly concerns the taxpayers.¹

This statement emphasizes loan-financed activities. It may be well to digress briefly in order to discuss the manner in which the states handle their loan operations and loan-financed activities. This phase of the budgetary comprehensiveness of the states is not discussed below with any completeness in connection with the problems of particular jurisdictions.

¹ Buck II, *op. cit.*, pp. 126-7.

(The existence of economic and legal limitations on state borrowing and a widespread antagonism towards loan expenditures have already been indicated. Because of these factors the problem of including debts within the scope of the budgetary system is by no means as important in the American states as it is for the national governments. (The states' problem may be considered to be that of adjusting their fiscal systems to an inability-to-borrow.) The procedural limitations on revisions of borrowing powers which have an important influence on the planning of their debts have also been discussed elsewhere.² However, there have been sales of state bonds in the past ten years in all except seven states. The amounts are not large in most cases, even when considered in terms of the annual budgetary outlays of the states. It has already been shown that the total state bonded debt outstanding increased only a billion dollars during the 1928-36 period. It is, therefore, not so much the present conditions as it is the change that will probably take place in state borrowing practices which necessitates a recognition of the extent to which the states are prepared to handle loan-expenditures in their budgetary procedures. The neglect of tax revenues in the state systems is notorious, and one is consequently not surprised to learn that in (only a few states do statutory requirements indicate any legal necessity for treating with debts when these are a source of state funds.)

A survey of the comprehensiveness clauses in the states follows, but some of the instances in which debts are mentioned may be considered at this point. Specific reference to loan proceeds in connection with estimated financing media is noted in Colorado.³ In Maine a provision of the Budget Act of 1931 (Sec. 4) reads:

It [the budget] shall also embrace the general budget summary setting forth the aggregate figures of the budget in such manner as to show the balance relation between total anticipated revenues together with other means of financing the budget for each fiscal year of the ensuing biennium.

The laws of this State, as does the Tennessee statute,⁴ make no specific reference to debts. However, it is surmised that in planning to finance outlays by increases in the public debt, these will be included under the terms "other means of financing." A more specific type of inclusion is seen in Minnesota where "amounts to be raised from ordinary revenue, direct taxes or loans" are required to be included in the budget summaries.⁵

² See p. 124.

³ See p. 118.

⁴ Tennessee Pub. Acts (1923), C. 7, §13.

⁵ See p. 119.

Massachusetts in its Constitution⁶ and Oklahoma⁷ and Vermont⁸ in their statutes conclude the list of states in which some form of specific mention is made. Two of these states can borrow at will. Another frequent provision is one providing that the state budget should include a reference to estimated receipts from debt authorized but unissued. Alabama and California have such provisions.

It will be recalled that the procedural lags found in connection with debt limitation amendments make it possible for a debt recommendation proposed in one year or in one biennium to be in the process of completion at the time of the next budget submission. The states are, therefore, faced with the problem of obtaining in the fiscal year for which the budget is being discussed, funds from the proceeds of a bond issue that was recommended or was in the process of being legalized in some previous period. The proposal to borrow may have been initiated two or three years previously.

Most of the states have no provisions with reference to possible increases in the public debt or to the expenditures to be made from such funds. It is natural that the several states pursuing a traditional policy of non-borrowing need not be concerned with such provisions. Connecticut, Florida, Indiana, Kentucky, Nebraska, Ohio, and Wisconsin are states in which there is an absence of any net state bonded debt. The failure of these states to consider loan expenditures is thus understandable.

(The states that have not refrained from borrowing have also failed to recognize the growing importance of public credit operations and have specifically excluded debts from the scope of their budgetary systems.) In New York, for example, the budget does report self-balancing expenditures of certain special funds and expenditures made out of the proceeds of bond issues already floated. The recommendation of the Governor for bond issues to be approved are not estimated in the revenue totals and find no recognition in the summation of proposed State outlays.

(Governors have frequently recommended constitutional amendments for borrowing authorizations at times other than that of the submission of the budget program.) It has already been noted that deficits and surpluses for particular years are measured without any reference to the increases in state indebtedness in those years.) For these states the loan proceeds are truly extra-budgetary in character.) It is difficult to suggest a revision of these practices since the public approval of any debt referendum cannot take place until the elections held ten months after the budget speech is read. The provisions regarding borrowing do not allow

⁶ *Mass. Const.*, art. 63, §2. "... budget ... shall contain a statement ... of all taxes, revenues, loans and other means by which ... expenditures shall be defrayed."

⁷ *Okla. Laws* (1919), C. 142, §7.

⁸ "... budget shall include the Governor's ... recommendations regarding ... the amounts to be raised by ordinary revenue direct taxes, bonds or loans." *Vt. Pub. Laws* (1933) §562.

the Governor to fit the receipts from any unauthorized debt issues into the fiscal program for the coming fiscal year. The time arrangements are best suited for him to include any expenditures to be made from the proceeds in the deficiency items for the current fiscal year.

(Some of the independent highway instrumentalities in the states issue bonds. In several of the commonwealths there are state-sponsored borrowing authorities which are not considered in relation to the regular finances.) In Alabama, for example, the Alabama Bridge Corporation and its obligations are not considered together with the States finances, though the debt service charges are financed by State highway revenues.⁹ There are numerous other examples; the following quotation from a letter discussing California's practices serves as a further illustration. The correspondent reports: "Receipts from such bond issues as San Francisco Harbor Improvement (which is in reality a State-owned public utility) have not been included (in the budget) as revenues."¹⁰ One more example should suffice to indicate the (widespread failure of the American states to coordinate borrowing activities with other financial policies.) Speaking of the contents of the budget message summaries, an observer in North Dakota stated: "Bond issues as a matter of practice have not been taken into consideration because it is not a policy of the State to operate by virtue of revenues obtained from bonding. (Bonds are issued only for specific purposes concerning which the Budget Board has no jurisdictional authority."¹¹) At the time this was written the State had about \$30,000,000 in long-term bonds outstanding.

The review of the states will show (examples of all the other extra-budgetary categories in addition to the loan-financed activities which Buck mentions.) It is apparent that the range is not as wide as in the national units. (There are restricted opportunities for the financing devices which make the prevalent national examples of extra-budgetary items possible. The inability to make monetary manipulations, the small variety of semi-public agencies, and the limited scope of their economic and social programs are other reasons why the bulk of the examples which are noted below deal with funds financed by assigned tax revenues. Were it not for highway funds and similar independently financed activities the problem would be relatively unimportant)

Legal Requirements for Comprehensiveness

In presenting a picture of current conditions in the states, efforts will be made to show how extra-budgetary status affects the equilibrium and control problem. The legislation on this phase of comprehensiveness will also be presented.

⁹ Edna Trull, *Borrowing for Highways*, (New York, 1937), p. 36.

¹⁰ Letter to the writer from Rolland A. Vandergrift, Director of Finance, Sacramento, under date of May 22, 1934.

¹¹ *North Dakota Budget System*, unpublished survey prepared for the writer by Herbert J. Roberts, Deputy Tax Commissioner and Statistician, Bismarek, N. D., July, 1935, p. 1.

(A survey of the states indicates an almost universal enactment of a so-called comprehensiveness clause. Typical is the requirement that all fiscal matters of the state be included in the budget program as submitted to the legislature.) Somewhat less common wording found in state statutes is the New York Constitutional requirement that the budget should present a "complete plan of proposed expenditures and estimated revenues."¹² In addition to its brevity (New York's clause is noteworthy for the enforcement and recognition accorded to it) Maryland deserves mention among the states which like New York have constitutional mention of the subject matter which the budget program should comprehend.¹³ Maryland's provision was the first to be placed in a state constitution. California has an elaborate provision specifying the various spending agencies to be included while Massachusetts is content with a short phrase similar to that found in New York.¹⁴ Nebraska alone, among the states mentioning the subject in their constitutions, does not insist that the source of the funds for the financial requirements of all departments, institutions and agencies of the state to be included or reported.¹⁵

Missouri and West Virginia are the two other States in which budgetary provisions are embedded in constitutional clauses.

These provisions, as do those found in the statutes, relate to the subject matter of the budget document which is intended for the basis of the legislative appropriation acts. Items which continue or have legal status regardless of immediate legislative action are included for informational purposes. If some phase of the state's financial activities does not have to be considered by the official or agency formulating the program, it may be presumed that an exemption from legislative deliberations of the program as a unit and possibly from some execution provisions will follow. It is primarily to insure the significance of the balancing mandates that the observance is important. Only in exceptional cases can it be assumed that the failure of an executive budget to comprehend a certain activity will make no difference in its status or in its position in the balancing of all state income and outlay.

(While a constitutional provision is not capable of being readily modified by legislative action, the necessity of including particular items in a printed statement is not sufficient safeguard against infractions of the basic principle underlying comprehensiveness.) Few people, if any, seem to be perturbed by any infraction of these constitutional mandates.

(The states which have statutory comprehensiveness clauses are more numerous.) They include Alabama, Arizona, Arkansas, Colo-

¹² *N. Y. Const.*, art. 4-A, §2 (a).

¹³ "... each budget shall contain a complete plan of proposed expenditures and estimated revenues . . .", *Md. Const.*, art. 3, §52.

¹⁴ *Cal. Const.*, art. 4, §34. *Mass. Const.*, art. 63, §2.

¹⁵ *Neb. Const.*, art. 4, §7.

rado, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kentucky, Maine, Minnesota, Michigan, Mississippi, Montana, New Hampshire, New Jersey, New Mexico, North Carolina, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, Wisconsin, and Wyoming.

Only Connecticut, Kansas, North Dakota, and Ohio among the states with statutory budget laws appear to have omitted the usual phrases directly requiring the including of all fiscal activities of the state in the budget.¹⁶ In these four jurisdictions, as in the others, there are various indirect requirements which might be conceived as aiding in assuring some degree of comprehensiveness in the planning or execution of the fiscal program. Among such provisions are those which require all state spending agencies to take part in the assembling of estimates. Requiring all proposals for expenditures to include a statement of the source of revenues to defray the proposed costs may also aid in relating financial activities in a coordinated program.

Two examples will suffice to indicate that the manner in which the statutes are worded is an obvious expression of legislative intent for a comprehensive budget program.¹⁷ The statutes of Colorado and Minnesota are cited because of their implied or expressed mention of debt issues, indicating a complete comprehensiveness of financing media not specified in many other states. In this respect, therefore, the clauses are not typical.

The Colorado statute in force at present reads:

The budget of the State government shall present a complete financial plan for each fiscal year of the ensuing biennium, which shall set forth all proposed expenditures for the administration, operation and maintenance of the departments, institutions and agencies of the State government; all interest and debt redemption charges during each fiscal year; all expenditures for capital projects to be undertaken and executed during each fiscal year of the biennium. In addition thereto, the budget shall set forth the anticipated revenues of the State government and any other additional means of financing the expenditures proposed for each fiscal year of the biennium.¹⁸

The Minnesota provision is equally explicit regarding the scope of the budget.

It shall be the duty of the Commissioner of the budget to prepare a budget for all receipts and expenditures of the State government as herein provided. The budget shall also include definite recommendations of the Governor for

¹⁶ Information regarding Nevada and Louisiana was not available.

¹⁷ The appended charts report, in summary form, the comprehensiveness requirements in many other states.

¹⁸ *Colo. Code Civ. Proc. Ann.* (Mills, 1933), §2611.

financing the expenditure recommended, and the relative amounts to be raised from ordinary revenue, direct taxes, or loans.¹⁹

It is interesting to note that in all of the states which failed to have a specific comprehensiveness requirement, with the exception of North Dakota, an observance of the principle not excelled elsewhere is encountered. This gives some indication of the lack of real authority exercised by such provision. In the case of North Dakota a number of expenditure and revenue items, in addition to a loan proceeds, are omitted from the budget. The sole indication of a requirement is found in the statutory provision setting up the Budget Board and prescribing its duties, among which is the preparation of a financial statement mentioning prospective available revenue.²⁰

Writing prior to the depression, Buck noted North Dakota as representative of commonwealths in which public industrial enterprises were excluded from state budgets.²¹

Extra-Budgetary Items in Various States

(A review of the states in terms of their actual practices rather than their statutory or constitutional requirements indicates their failure to appreciate the importance and necessity of comprehensive budget systems. There appear to have been frequent evidences of disrespect towards the letter and spirit of the provisions mentioned above.) The first group of states which is surveyed includes those in the South.

Alabama does not fit into its budget program the general fund revenues that are assigned to specific functions. It furthermore excludes many special purpose funds which have been created to include specifically assigned revenues and the expenditures which they finance. These special-purpose funds are considered independent of the general budget, and there is no assurance that their consideration involves any comprehensive or coördinated treatment. The writer has been informed that the special-purpose funds are both numerous and important, and that the general fund revenues, because of their exclusion, cover approximately only one-quarter of the total activities financed by the State.²² It will be noted that in Alabama the statutes specifically provide that the budget shall contain a complete fiscal program of the State and that detailed estimates of revenues and expenditures must be included.²³ The requirements regarding the information

¹⁹ Minn. Laws (1925) C. 426, art. III, §9.

²⁰ "Budget Recommendations include only proposed expenditures of state departments and state institution. Appropriations for special purposes are enacted by the Legislature without recommendation of the Budget Board." *North Dakota Budget System, op. cit.*, p. 1.

²¹ Buck I, *op. cit.*, p. 40.

²² *Budgetary System of Alabama*, unpublished survey prepared for the writer by Prof. Paul E. Aylea. Univ. of Alabama, July, 1935, p. 2.

²³ Ala. Gen. Accts (Extra Sess. 1932), No. 37, §2.

on surpluses or deficits expected at the close of the current quadrennium are important only with respect to the quarter of the State's fiscal activities which are included in the budget. The special depression-sponsored acts dealing with the execution of Alabama's fiscal program minimized the abuses of the extra-budgetary elements in the State's fiscal system. They did so by specifically withdrawing immunities and by mentioning the activities which were affected.

A survey made of the financial administration of Arkansas in 1930 called attention to the ineffectiveness of the existing comprehensiveness clause. The statute which was recommended as a substitute would have precluded the granting of budgetary autonomy to any State function.²⁴ It was not adopted, nor was budgetary comprehensiveness featured as a State policy. The difficulties incurred in the finances of Arkansas during the depression are well known and are in no small measure related to administrative inefficiency.

Another Southern State, Georgia, does not provide an adequate link between the specific funds which have been set up for the assigned revenues and the general budget. The Highway Fund is not linked to the general budget in the computation of the fiscal balance and is exempted from requirements covering the fiscal activities of other State agencies. There have been recent indications in the press that political disturbances have centered around the control of the autonomous Highway Fund. The particular problems of highway financing in this State were dwarfed in the fiscal crisis which resulted from a political struggle between Governor Talmadge and other State officers in 1936. Some of the difficulties were caused by attempts at diversion of Highway Fund monies.²⁵ It was noted in Georgia that the blocking of the passage of the appropriation act placed the independently financed activities at a temporary advantage. They alone were able to use funds at their disposal. Such a situation is hardly compatible with the best interests of the community at large.

In Mississippi an opportunity is afforded to note the relationship between a general fund and a comprehensive budgetary system. The budget is concerned only with the general fund while

²⁴ The recommended statute read as follows:

The Budget of the State Government shall present a complete financial plan for each fiscal year of the ensuing biennium, which shall set forth all proposed expenditures for the administration, operation and maintenance of the departments and offices of the State government; all interest and debt redemption changes during each fiscal year; all expenditures for capital projects to be undertaken and executed during each fiscal year of the biennium. In addition, thereto, the budget shall set forth the anticipated revenues of the State government and any other additional means of financing the expenditures proposed for each fiscal year of the biennium. *Findings and Recommendations on a Survey of the Administrative Structure of the State Government of Arkansas*, Prepared for the Governor by the Institute of Public Administration, (New York, 1930), p. 101.

²⁵ N. Y. Times, March 18, 1936.

a number of State activities are segregated in extra-budgetary special funds. This nullifies a statutory provision which stipulates that the budget shall cover the entire expense and income of the State for each biennium.²⁶ The earmarking of revenues for specific functions is the reason for the extra-budgetary segregation. The construction and maintenance of highways, and the operations of the State Banking Department and the Game and Fish Conservation Commission are exempted from the control provisions to which other activities of the State are subject.

By a series of statutes Mississippi appears to have avoided any contribution by the extra-budgetary items to a deficit or any disturbance to the planning and maintenance of a balanced State budget. At no time can disbursements from the special funds exceed sums already in the till.²⁷ A recent statute prohibits the special funds from borrowing except in a manner to which all other State spending agencies adhere.²⁸ The provision denies to the special funds some exemptions of the types granted in the other administrative statutes. The State's problems would, however, have been simpler had the special funds been eliminated or modified at an earlier date.

Continuing the survey among the Southern states, the Carolinas offer other examples of a failure to achieve budgetary comprehensiveness because of the existence of autonomous funds. In North Carolina, according to specific legislation,²⁹ nothing in the statutes regarding budgetary matters can be applied to the State highway funds. These are under complete control of the Independent State Highway Commission. Buck has indicated that the exemption was based on the alleged difficulties of subjecting the construction activities of the Highway Fund to the biennial budget provisions.³⁰ Although it did not do so previously, North Carolina now takes highway problems into consideration in measuring the prospective balance. In spite of legal requirements, the Highway Commission Fund may be considered to constitute an annexed budget which is linked to the general budget by means of net surpluses or deficits, or gross totals of income or outlay. The Highway Fund budget is presented to the Legislature in the same document as is the general budget. This is a practice found in many other states but one which is rare in the South.

In South Carolina the statutes providing that the budget shall contain a "complete and itemized plan of all proposed expenditures for all agencies"³¹ do not affect the administration of the Independent State Highway Fund. The latter is under the control of a State Highway Commission legally immune from the

²⁶ Miss. Gen. Laws (1932), C. 120, §1.

²⁷ Letter from Leigh Watkins Jr., Director of Research, Mississippi State Tax Commission, under date of Oct. 22, 1936.

²⁸ Miss. Gen. Laws (Extra Sess., 1936) C. XXX, §XX.

²⁹ N. C. Code Ann. (Michie, 1935), §7486.

³⁰ Buck I, *op. cit.*, p. 38.

³¹ S. C. Code (1932), §3219.

provisions regarding budgeting of general State activities. The problem in South Carolina has been the subject of some discussion by State authorities. The budget document includes only some fiscal statistics regarding highway activities of the past biennium. Efforts are being made to modify this practice because of difficulties, similar to those of Georgia, which have been created by the existence of this autonomous highway fund. The message submitted by the Governor in January 1936 states that "in view of present circumstances, the Budget Commission is of the opinion that at this time it will be impracticable to intelligently recommend a budget for the operation of the highway department. It is believed, however, that legislative consideration should be given to the matter of providing a budget of all funds expendable by the department."³² Elsewhere in the same document the Governor stressed the advantages which would accrue to the State from a closer linking of highway and school expenditures to the general fund. He stated:

As a question of policy, the adoption of which it is believed would serve to simplify our present system, it is recommended that legislative consideration be given to the matter of budgeting and appropriating all highway and school expenditures. There are at the present time three major phases of the State government involving the expenditure of State funds; namely, the general fund, the Highway Department, and the State supported public school term. Of these three divisions, strict legislative control is exercised only over general account transactions. There appears to be no justifiable reason why such control should not be exercised over all phases of the State's business involving the expenditures of public funds and it is entirely probable that such control of all State expenditures might lead to the adoption of policies which would affect considerable saving.³³

It will be noted that the subordination of the Highway Commission to normal State procedures would not be without political and legal difficulties, and that the extra-budgetary activities are most frequently linked to highway elements in the State's finances. The importance of highway finances and the particular stability of highway revenues has led to a series of raids, inter-fund borrowing, and other similar actions which indicate the desirability of formulating a more comprehensive budgetary policy with respect to the assigned revenues of the highway funds.

Extra-budgetary items are not restricted to the Southern states, where administrative difficulties are not unexpected. For example, in New Hampshire a condition not compatible with the best budgetary practices has been noted. The usual statutory provision requiring that all fiscal matter of the State be included in the

³² South Carolina, State Budget for the Fiscal Year Ending June 30, 1937, (Columbia, 1936) p. 178.

³³ *Ibid.*, p. 5.

budget is found.³⁴ The laws require inclusion in the budget of such data as is necessary in order to make known in all practicable detail the financial condition and operation of the government and the effect the budget as proposed by the Governor will have on such condition and operation. Exception is found only in the case of the Highway Department. Its budget is not only independent but operates under a different fiscal year.³⁵ The result of the budgetary autonomy of the highway activities has been clearly indicated in the Brookings survey of this State.

By this authority not only the annual report of the Commissioner but also all other fiscal relations of his department are being administered on the basis of a fiscal year ending January 31st. The budget of the highway fund including its estimated receipts and estimated appropriation requirements is submitted as of January 31st. Expenditures for highway projects are authorized for a fiscal year ending January 31st, as a result of which it becomes necessary for the Comptroller to account and report expenditures from appropriations and allotments for a like period.³⁶

The survey recommended an abolition of the budgetary autonomy enjoyed by the highway items. It suggested that the Highway Department adopt the fiscal year ending June 30th and make it possible for its budget processes to be coordinated with those of the other State spending agencies. It was proposed that the Highway Commission be required to submit its estimates of revenue and expenditures at the same time the other estimates are submitted. Revisions in accounting and reporting practices, equally affected by the extra-budgetary status of these items, were also recommended.³⁷ Assigned funds other than those for highways are carried in specific-use funds which are closely linked to the general fund.

In New Jersey the statutes provide, as in most of the other states, that the proposed complete financial program of the State be included in the Governor's budget.³⁸

The numerous assigned revenues are carried in specific-use funds which are closely linked to the general budget. It is with respect to the highway fund that difficulties were until recently encountered, growing chiefly out of the fact that the highway fund operated on a calendar year basis. The general budgetary

³⁴ N. H. Laws (1931), C. 171.

³⁵ All state activities operate on the fiscal year ending June 30th. N. H. Laws (1931), C. 15 provides that "the (highway) Commissioner shall make to the Governor and Council an annual report of the work done and expenditures incurred by his department for the year ending January 31st."

³⁶ *Report on a Survey of the Organization and Administration of the State, County and Town Governments of New Hampshire*. Submitted to Governor Winant by the Institute for Governmental Research, Brookings Institution, (Washington, 1932), p. 385.

³⁷ *Ibid.*

³⁸ *New Jersey State Budget System*, unpublished survey prepared for the writer by John A. Reddan, Commissioner of the Budget, Trenton, 1934, p. 2.

system functions with a fiscal year ending June 30th. The highway fund budget was previously published in a separate document. It appears in the general budget document only since 1936. The developments in New Jersey are not without general interest inasmuch as some fundamental problems are illustrated.³⁹

As indicated above, the budget documents now cover all outlays including those for the highways. Recent developments with respect to New Jersey's highway fund as a source of revenues for general State needs have no doubt motivated the policy to link the fund closer to the State's general fiscal program. This State's highway fund, as that in many other states, continued to enjoy the yields of the lucrative and stable motor vehicle and fuel levies and had been the target for efforts to use these funds for the support of general State functions.

In Iowa, in spite of statutory provision,⁴⁰ some evidence of attempts to facilitate appearance of balancing by occasional omission of specific expenditures is indicated. It should be noted in Iowa, as in many other states, in addition to detailed estimates of expenditures and revenues the law requires that the budget contain information regarding the proposed measures of taxation to alleviate any respective deficits. This motivates a desire to

³⁹ The following comments from an exhaustive study of the State's budget problems describe recent provisions affecting this portion of the State's outlays:

Under the new law the expenditures of the highway department must be made from appropriations annually granted by the legislature and for the first time the highway budget must be submitted regularly for legislative action (Laws of 1933, Chapters 193, 451). The law provides for a separate annual state highway fund appropriation act which grants funds for the use of the highway and motor vehicle departments and the gasoline tax division of the state tax department upon a calendar year basis. The regular appropriation act provides funds for the use of the other spending agencies in the ensuing fiscal year which begins July 1.

In submitting the first budget under the new law in January, 1934, Gov. Moore disregarded the requirement that his recommendations for appropriations from the state highway fund shall be given to the legislature at the same time. Shortly before the budget was printed the Governor ordered the deletion of the section containing the state highway fund budget. The Governor later conferred with the appropriations committee concerning the highway budget but the latter was never printed and distributed. In his annual message to the legislature Governor Moore proposed that new construction of state highways should be limited to that which could be financed with federal aid funds. He asked that no more state highway bonds be sold and that the money from motor vehicle licenses and the gasoline taxes, which ordinarily would be available for new construction, should be apportioned for a period of three years among municipalities to be used solely for public school purposes. (Annual Message, January 9, 1934, p. 26). But the fact that the Governor wished to restrict severely state expenditures for new highway construction does not appear to be sufficient justification for failing to submit the highway fund budget in accordance with the law. The last published budget is somewhat improved in form but it is incomplete and misleading as it omits all expenditures of the highway department, the motor vehicle department, and the motor fuels division of the state tax department. Denzel C. Cline, *Executive Control over State Expenditures in New Jersey* (Princeton, 1934), p. 27. r

⁴⁰ Iowa, Budget & Financial Control Act, Chap. 4, Acts of 1933.

achieve a balance by eliminating expenditure categories. In particular proposed expenditures for capital improvements have been omitted. In the 1935-37 budget appropriations for capital improvements were omitted from the budget because of the expressed inability of the Governor to allocate funds for their financing. In order to throw the responsibility on the Legislature, it is reported that the Governor submitted estimates for these activities, under separate cover, for such action as the Legislature might take. Another interesting element in the Iowa situation is the fact that certain of the State Departments have the statutory power to refrain from subjection to the control inherent in the State budget system. Commenting upon the budget control in his State, a financial officer made the following statement:

" . . . Iowa now has an excellent State budget system administered by the comptroller provided under the Budget and Financial Control Act of 1933. The comptroller has direct supervision of every department of State government except the State Fair Board, the State Board of Education, and the Fish and Game Department, but it should be observed that the latter department had voluntarily come under the new system."⁴¹

A specific assignment for the service of the soldier's bonus bond issue is also omitted from the budget.

In Maine, prior to the enactment of the new 1931 budget law, there was some indication that the budget did not attain comprehensive coverage.⁴² Based on the recommendation of the staff which made an intensive survey, the new statutes pave the way for remedying the situation.⁴³

Michigan offers a further example of an ineffective comprehensiveness clause. In practice certain fiscal items are omitted from the budget. These include the sums required to meet old-age pension payments and the administrative costs of the old-age pension system. As indicated elsewhere, there is no reason why these social and economic programs involving State outlays and taxes should be segregated in a manner which obscures a broad view of the State's fiscal program. It is reported, with respect to the extra-budgetary items, that they were included in supplementary appropriation acts although complete knowledge of their needs existed at the time of submission of the budget. Thus the misleading appearance of a balanced program was facilitated. Such an illusory comprehensiveness may serve the best interests of a government if the postponement aids in improving the accuracy of the estimate of a future need. Michigan has

⁴¹ John E. Brindley, "Local and State Budget Control." *Proceedings*, 27th Conference, National Tax Association, (Columbia, S. C., 1935), p. 419.

⁴² *State Administrative Consolidation in Maine*, Report on a Survey of the State Government Conducted for Governor Gardiner by the Institute of Public Administration, (New York, 1930), p. 55.

⁴³ *Ma. Laws* (1931), C. 216, art. II, §3.

had long standing difficulty with respect to extra-budgetary items. It is only recently that the University of Michigan, the Michigan State College, and the Agricultural Experiment Station were brought within the budget system. Prior to the enactment of the law which extended the comprehensiveness of the system,⁴⁴ only the expenditures used for routine operation of State institutions, departments, boards, and commissions, covering only one quarter of the total disbursements of the State, were included in the budget. A local observer has noted "The expense and revenues of the following were all, or practically all, omitted from the budget:

- (a) State Highway Department.
- (b) Fee-operated division of the Secretary of State's office, Public Utilities Commission, etc. They may be shown in the budget but are not controlled as to a fixed amount of expenditures.
- (c) Industrial funds for operation of prison industries, known as revolving funds, do not come under budget control or scope and do not close biennially.
- (d) Fees at the University of Michigan and State College and all detail of other expenditures of any revenues.
- (e) Trust funds i.e., primary school fund, closed banks, teachers' retirement fund, etc., where the State Treasury is the depository. Generally speaking, the tendency of any new function of government is to seek exemption from budget control in the act creating it."⁴⁵

Oklahoma has a statute providing that the budget:

"contain a complete and itemized plan of all proposed expenditures of each State department, bureau, division, officer, board, commission, institution or other agency or undertaking, classified by function, character and object and of estimated revenues and borrowings for each year in the ensuing biennial period beginning with the first day of July thereafter."⁴⁶

A recently compiled survey of the State indicates that the only funds appropriated biennially by the Legislature are those which accrue to the State Treasury for the credit of the unrestricted general fund, certain educational funds, public building funds, and certain special funds.⁴⁷ Evidently other funds, including those for highways, are omitted. Their prominence is lessening because the State is tending to abandon the specific tax assignment practice.

⁴⁴ Mich. Pub. Acts (1933), No. 187.

⁴⁵ *Michigan Budget System*, unpublished survey prepared for the writer by George D. Thompson, State Budget Director, Detroit, June, 1934, p. 3.

⁴⁶ Okla. Laws (1919), C. 142, §7.

⁴⁷ *Report on a Survey of Organization and Administration of Oklahoma*, prepared by the Institute for Governmental Research, Brookings Institution, (Oklahoma City, 1935), p. 239.

In South Dakota the failure to provide for the budgetary inclusion of its industrial and commercial enterprises has been the outstanding example of this budgetary practice in the states. This experience is rare in the American states, since they have only occasionally ventured into industrial or commercial activities after the disastrous wildcat speculation and boom days. There are probably fewer such enterprises now than before the depression.

The statutory provision in Tennessee is of the all-inclusive type.⁴⁸ The comment from an authoritative analysis of the State's fiscal system is enlightening on the manner in which the legislative intent for a comprehensive budget has been poorly enforced.

The intention of the law is that all fiscal measures be included (in the budgetary system). In actual practice, however, there are serious omissions. The Joint Recess Committee on Finance Ways and Means reported in 1931 that:

"Your budget law is largely ignored and the alleged budget to you by the Governor, in so far as it purports to contain the amount necessary to operate the government during the biennium, is in fact no budget at all. Comparatively speaking, it contains only a small part of the expenditures that will be made during that period."

The Committee went on to point out that the general appropriation bill for the 1929-31 biennium carried appropriations aggregating \$27,218,639.48 whereas the actual expenditures for the first year of that biennium amounted to \$64,865,802.99.

The greater part of this tremendous disparity resulted from the failure to budget highway expenditures. Highway expenditures were budgeted for the first time in the 1933 Appropriation Act.

The same committee also reported that: "in addition to the amounts provided for in the budget contained in the general appropriation bill, large payrolls and operating expense amounts running into hundreds of thousands of dollars were being carried and paid by the Department of Finance and Taxation and the Railroad and Public Utilities Commission and possibly other departments. These amounts are not carried in any appropriation bill and are not in any way submitted to or passed upon by the General Assembly."⁴⁹

This situation resulted from allowing the various departments to spend the fees collected for rendering services. The 1933 General Appropriation Act attempted to deal with this problem

⁴⁸ The Governor submits to the legislature "a budget embracing the amounts in detail recommended by him to be appropriated to all departments, offices and agencies of the state for each of the years of the next ensuing biennium, the estimated revenues from taxation and other sources and the estimate of the amount required to be raised by taxation." Tenn. Pub. Acts, (1923), C. 7, §13.

⁴⁹ *Budget System of Tennessee, op. cit.*, pp. 4-5.

by limiting all departments to the amount appropriated in the budget, but it appears that many departments still spend all the fees they collect. It will be recalled that Tennessee officials had difficulty in carrying out the statutory requirements regarding the repeal of continuing appropriations. The fact that the activities of the Highway Department had been omitted from the budget contrary to law was noted in a study written in 1929.⁵⁰ Assigned revenues appear to be the root of the abuses, which are clearly incompatible with efficient financial administration.

In Washington the comprehensiveness clause has the usual form.⁵¹ It is reported, however, that several expenditures and revenue items are omitted from the budget and that these involve the revenues collected by many departments to finance activities not subject to legislative control. It is interesting to note that specific attempts to include these assignments in one form or another in the budget have led to difficulties because of the fact that the boards and departments understate revenues collected by them. The State's budget official has commented as follows:

Generally speaking the budget, as considered, covers only those funds passing through the State Treasury. Many departments, particularly the educational institutions, receive and collect revenues which they expend without legislative direction or control. The Budget Division attempts to include information regarding such funds in the various schedules supporting the budget. Experience has shown that these so-called "Local Funds" are generally *understated* by spending agencies. Proposed legislation to require that all funds pass through the State Treasury in the past has been defeated.⁵²

This represents another type of budgetary difficulty which is encouraged by the practice of assigning revenues.

In West Virginia the constitutional comprehensiveness provision referred to above is relatively ineffective with respect to the revenues collected by the State Road Commission and the State Compensation Commission. Appropriations for the administration of these departments are included in the budget and are made payable by the revenues collected. This forms their only link to the general budget. Financial practices of these two funds are described as follows:

The payment of funded indebtedness of the Road Commission is provided for from the department to the Sinking Fund Commission, and the Construction and Maintenance of highways is left to the discretion of the State Road Commission.

⁵⁰ Buck I, *op cit.*, p. 38.

⁵¹ Wash Laws (1929), C. 9, as amended by Wash. Laws (1929), C. 162, §4.

⁵² *Budget System, State of Washington*, unpublished survey prepared for the writer by E. D. Brabrook, Supervisor, Division of Budget, Dept. of Finance, Budget, and Business, Olympia, July, 1935, p. 1.

The administration of the Compensation Department, so far as disbursement of funds is concerned, is provided for on the basis of receipts and disbursements similar to that of a strictly mutual insurance company.⁵³

In Wisconsin the ineffective comprehensiveness of the system, growing out of the presence of continuing items has already been commented upon. In practice, in spite of a statutory comprehensiveness clause, only those departments and agencies which derive their finances from operating funds appear in the budget. Trust funds and special benefit funds are omitted.⁵⁴

With regard to the budgetary inclusion of all expenditures financed by tax revenues, New York may be classed with Colorado,⁵⁵ Idaho, Illinois, Indiana, Kentucky, Maryland, Missouri, Nebraska, Oregon, Pennsylvania, Rhode Island, Utah, Vermont, and Virginia.

In these states, fifteen in number, there is little indication that the budget program as recommended to the legislature does not take into consideration in some adequate form all the fiscal items other than those related to public debt operations of the states. There is an indication that these states, with the exception of continuing elements already mentioned, possess budgets which reveal executive planning and legislative action covering all activities. Since extra-budgetary practices are not always accompanied by publicity and in view of the notorious disregard of comprehensiveness clauses, a more searching analysis might reveal evidence pointing to other conclusions.

While budgetary comprehensiveness is not exclusively a matter of printing and binding, the budget document can readily indicate the character of the comprehensiveness of the system. New York's document offers conclusive evidence that those phases of the State's fiscal activities which are omitted and which are not linked to borrowing activities are negligible in importance.

Summary and Conclusions

(The American states offer a less colorful variety of extra-budgetary items than do the national units. However, in some juris-

⁵³ *Budget System of West Virginia*, unpublished survey prepared by Mr. F. C. Horn, Director of the Budget, Charleston, March, 1936, p. 6.

⁵⁴ *Wisconsin Budget System*, unpublished survey prepared for the writer by Mr. J. B. Borden, Secretary, State Budget Bureau, Madison, Wis., June, 1935, p. 3.

⁵⁵ Colorado's position in this group may be questioned on the ground that the State Highway Budget, covering calendar years in distinction to the July 1-June 30th fiscal years of the general budget, is prepared and passed upon by the Highway Advisory Board. However the estimates of revenues and budget requests appear in the general budget document. The Governor's letter of transmittal accompanying the 1935-1937 Budget states: "Many important agencies and functions of government have no recommendations because of the shortage of funds. It is understood that these departments hold an important place in State government, but if they are to be continued, new revenues will have to be provided." This is another reason for doubting Colorado's qualification for inclusion in this group.

dictions examples are plentiful and the problem cannot be readily dismissed. Disregarding public debts, only a minority of the states can receive a clean bill of health for their observance of budgetary comprehensiveness.) These commonwealths, among them New York, have not created special or specific-use funds which are administered outside the scope of the budget system. The documents may show some segregation but, (from an informational viewpoint, include a survey of all outlays and receipts. The program at least as far as its planning and submission is concerned is comprehensive. Barring continuing appropriation, all outlays are voted as a part of the state's general fiscal program. The advantages of such a practice are self-evident.)

There are cases where the fiscal policies chosen require a complete divorce of the particular activities from the normal budgeted sphere of the state's activities. Such cases are however very rare in the financial systems of the states. The examples which have been given indicate that (the extra-budgetary status is not necessary in order that the desired economic and fiscal program be achieved. Neither are the chosen fiscal policies involving some impairment of the budget system's comprehensiveness always essential and in the best interests of the State. It is only with respect to loan expenditures that the states are forced in some cases to initiate extra-budgetary items.)

(The large number of jurisdictions which still operate two budgets, one for general state functions and one for highway activities, appear to gain no advantages over states such as New York which take a more unified view of their fiscal problems.) (The budgetary comprehensiveness can be maintained without any sacrifice in federal benefits or in fiscal efficiency.) Constant working relations between all state activities can be maintained. These are preferable to sporadic raids, to divergent conditions in some parts of the finances, and above all, to the lessened control which is involved. (It is recommended that all the states restore comprehensiveness to their budgetary systems.) (This can be achieved by repealing the statutes denying the applicability of budget measures to some elements in the fiscal system, by using the same budget period dates for all activities, and by presenting a complete view of all the finances of the state through the medium of the budget document. If the budget periods are of the proper length and the planning, adoption, and execution procedures provide for maximum efficiency, the need for exempting particular items can be reduced to a minimum. Eventually there might be no reason for failing even to cover loan-financed activities in the budget.)

(When the conclusions of the other chapters of this part are put into practice, and extra-budgetary items are eliminated) or modified, the balancing of state budgets will be facilitated. Furthermore, budgetary balance will imply fiscal equilibrium rather than measure the expenditure and revenue relations in some arbitrarily delimited phase of the state's financial activities. All the advantages inherent in a comprehensive budget system will be attained.)

PART II
BUDGETARY UNITY

CHAPTER X

PROBLEMS OF BUDGETARY UNITY

Budgetary Comprehensiveness and Unity

The foregoing part has been concerned with the relationship of the budgetary system to the fiscal activities of the jurisdiction which it covers. In connection with budget periods and continuing and extra-budgetary items, many varieties of developments have been noted. (Closely linked with these problems of comprehensiveness, in both theory and practice, are the methods involved in arranging and coordinating the various fiscal elements within a budgetary system.)

(The continental "principle" approach to the budget problem has concerned itself at great length with the question of budgetary unity. Definitions have varied, and there has been a general tendency to link, if not to confuse, the principle with that of comprehensiveness. According to the viewpoint adopted by the present writer, budgetary unity involves segregation or classification within the budgetary system, while comprehensiveness in its related phases involves exclusion that implies an extra-budgetary character.) A criterion well suited for the purpose of the present study of the problem is found in relation to budgetary balance. It will be discussed below.

(A budgetary system may include several separate accounts, which together reflect the accomplishments of the fiscal system, and which are interlinked in various ways in a general budget program. Such a situation is referred to in terms of a system of multiple budgets. Nevertheless, the impaired unity does not conflict with the principle of budgetary comprehensiveness. The study of unity concerns itself with criteria for the segregation of items into various types of multiple budgets.) However, it is not only with respect to budgetary balance that unity is studied, for it affects all phases and stages of the budgetary problem. In the preparation, adoption, and execution stages, it will be found that exemptions and dispensations accorded different items can be traced to some feature which can be regarded as an aspect of budgetary unity.

(The theoretical ideal of budgetary unity is the unified planning, voting, and control of all expenditures and all financing media. It is inconceivable, however, that this ideal can be achieved under the complex character of modern economics, fiscal systems, and governmental policies. Variations from the simple linking of all income and all outlay, determining the extent of the impairment of budgetary unity, will be found in great profusion.)

The Study of Budgetary Unity

There are two avenues of approach which present themselves in the study of budgetary unity. The most popular one is offered by a study of the projected budget program as outlined in a document or message presented to the legislature. Governmental receipts and expenditures are practically never presented in a unified form and in their totality in one budget account. Even a budget summary indicating the results which would be shown, had there been such unity, is frequently lacking. The manner in which the fiscal program is formulated and presented, at the time when the greatest emphasis on the balance status is accorded to it, is therefore an important indication of the unity status. However, documents may encourage misleading interpretations. In some cases the various special and segregated funds are shown as complementary annexes to the general budget document. In other cases the special funds are shown in separate documents; the link to the general budget which should aid in identifying the budgetary unity status is thereby obscured. Another difficulty grows out of the fact that summarized accounts may imply a unity which does not exist. Particularly in connection with assigned revenues it is possible to designate the outlays and revenues in their totality, while in the actual operation of the system all revenues are not in fact available for the financing of all outlays. The American states offer many examples of unity impaired during execution on this score. It is obvious, therefore, that the document approach requires qualification and supplementation.

Such support can be had by viewing the manner in which moneys are physically segregated and accounted. This link of budgetary unity to a general fund concept is clearly brought out in the works of Adolph Wagner. The present writer has elsewhere noted that Wagner "was among the first to recognize that a general fund in the treasury is an essential prerequisite for budgetary unity."¹

(Jurisdictions which maintain a single or consolidated treasury fund into which all funds received by the government must flow, and out of which all payments are made, are naturally not the ones in which a variety of separated and obscure budgets representing various funds will readily be found.)

While documents constitute a relatively advantageous basis for appraising the unity of the planned budget program, the operations of the general fund supply a working tool for viewing progress and accomplishments and for judging the degree of unity maintained. (Where unity is lacking in a system, the observer must examine several separate funds to ascertain the total periodic income and outlay. The observer must also view borrowing developments if the creation of debts for the financing of activities segregated in special funds is permitted.)

¹ "Budgetary Principles," *op. cit.*, p. 248. Wagner's viewpoint is developed in his discussion of the "*Princip der fiscalischen Kasseneinheit*" in *Finanzwissenschaft, Erster Theil*, (Leipzig, 1883), p. 237.

In this part efforts have been made to (analyze unity from the documentary evidence and from the circumstances surrounding general fund operations) In view of the emphasis on fiscal equilibrium, the unification of all items affecting budgetary balance will be stressed. Few jurisdictions lack sufficient documents revealing the status of the accounts or general funds from which an analysis of unity may be made. There are, furthermore, definite fiscal policies regarding debts and revenue dedications which assist in identifying unity infractions.

The Theory of Budgetary Unity

It is not sufficient to indicate that budgetary unity has been impaired. (The maintenance of a system of special funds and of annexed budgets may be of minor significance *per se*.) It can be shown that it is not necessary to have a unified budget in order to achieve the segregation of all fiscal activities in one plan. Conceivably (with a consistent attitude resulting in clarity and sincerity in all fiscal operations and their administration, even the most loosely knit system could allow the same advantages to be obtained as are associated with a unified budget approach. Unfortunately, impaired budgetary unity and a low standard of fiscal morality and administrative efficiency frequently go hand in hand. The existence of a system displaying impaired unity can seldom result in aiding the attainment of both qualitative and quantitative fiscal balance.)

A review of the theoretical studies of budgetary unity reveals that definitive conclusions on the policies to be pursued by governments are lacking. There is no agreement regarding the desirability of maintaining a multiple budget system when the nature of the financial activities of a jurisdiction encourage them. Many writers see a repetition of the defects which are commonly associated with extra-budgetary items. (Lessened control, ineffective planning, and the encouragement and concealment of deficits are the disadvantages most widely stressed. While the need for special treatment of certain items in the fiscal system is generally recognized, several students have nevertheless emphasized the dangers involved and demanded strict justification for any departure from a unified system. The French writer Allix, who has shown the greatest interest in the problem of the so-called industrial budgets, (stresses this viewpoint.²) His treatment of this phase of budgetary unity can profitably be analyzed in some detail. Allix maintains that the concept of an industrial budget is in opposition to the basic ideas of budgetary unity. (The principle, he admits, disregards the fact that industrial budgets have come into prominence because the financial affairs of the governmental enterprises cannot be subjected to the procedure designed for normal expenditures and tax revenues.) There can be no denial, Allix claims further, that any failure to segregate the

² Allix, *op. cit.*, Chapter XII, "La Théorie des Budgets Industriels."

commercial activities of governments presents effective hindrances to their development. The allocation of appropriations to these commercial functions according to their particular budgetary status would not bear any relationship to their actual practical needs. Moreover, an attempt to include the public commercial enterprises within the scope of application of the variable policies, which must be adopted in order to assure conformance to principles of budgetary equilibrium, would prevent them from maintaining the types of financial practices which similar enterprises operated on private basis must adopt.

(Normal fiscal concepts of equilibrium find no justification in business enterprises where the acquisition of fixed assets through the creation of debt is at frequent times a regular phase of development.) It is readily seen that it can be claimed that (any attempt to subject industrial enterprises in their budgetary status to the principles of comprehensiveness, unity, non-assignment of revenues, and the others offered as guides for budgetary legislation, will lead to difficulties. In particular, the characteristic of annuality, which has been accorded an important status as an element of budgetary procedure, does not lend itself to the budgeting of the finances of governmental activities of commercial or industrial character.)

The expansion of state enterprises has led to a conclusion in which Allix's approach is clearly shown. He states, "This inevitable evolution of the services of the State is constantly in conflict with our budgetary principles.) These, (formulated in terms of the State as judge, as gendarme, and as tax collector, paralyze the State as manufacturer and merchant."⁸)

{The needs for independent budgeting of industrial and commercial enterprises} are summed up by Allix in terms of the following requisites:

- ✓ (a) Recognition of the development of exploitation and merchandising practices.
- ✓ (b) Modification of classifications and voting units.
- ✓ (c) Justification for the retention of receipts and their assignment for specific purposes, for net budgeting, and for separate funds.
- (d) Recognition of an (acceptable rôle for borrowing not restricted by limitations applicable to other phases of the fiscal systems.) (In the experience of many national jurisdictions this factor appears to have been the one which has been most effective in the impairment of budgetary unity.)
- (e) Justification for the building up of reserve funds and other accumulations which are not subject to periodic legislative review and which may be tapped without any regard to periodic revenue authorizations.)

⁸ *Ibid.*, p. 152 (translated).

- (f) Recognition of differences with respect to the lapsing of appropriations and the general departure from the accounting methods which are a feature of normal budgetary practices.
- (g) Recognition of the need for liberal supplementary credits due to the difficulties of estimating with strict precision the time and magnitude of funds required.

✓ This imposing array can be summarized in terms of (a need for a withdrawal of the enterprises from the scope of the finances which are annually planned, voted, and executed primarily with a view towards achieving a balanced expenditure-income relationship)

(On the other hand, those who still favor the stricter application of the unity principle insist that the needs of public industrial and commercial enterprises can be adequately met within the framework of existing classifications in budgetary systems. We are told that by introducing flexibility it would not be difficult to defend putting any fiscal element, because of its peculiar characteristics, in a separate category.) (Yet an attempt to carry segregations to their logical conclusion would result in granting to the concept of budgetary unit a meaningless connotation.) Each new activity would introduce into the budget picture some further departure from clarity and simplicity.)

In units in which the creation of many multiple budgets is tolerated, any attempt to measure the fiscal results of a particular period or to work systematically with the various separate accounts is well-nigh impossible. Patient and concentrated research, such as would seldom be expected for any budgetary item, would be required to get a clear knowledge of such finances. Furthermore, dishonest practices designed to conceal deficits are facilitated.

(Allix has summarized reasons for adhering whenever possible to a strict application of the unity principle. Some of these are presented below:

- (a) The budgetary principles are not merely theoretical. They have been shown to be of practical value and represent safeguards not to be abandoned. Their normative implications should not be disregarded.)
- (b) If the creation of additional multiple budgets continued every time a legal or economic justification for the separate classification was encountered, such developments would reduce the status of the finances to a system of separate activities unsuited to unified planning and control.)
- (c) While the general fund principle is not practicable for all categories of activities and revenues, (its abandonment is fraught with danger. Eventually all fees, receipts, taxes, etc., might be linked to specific outlays and would be drawn away from any relation to broader economic and financial principles.)
- (d) Multiple budgets encourage the beginning of dangerous loan policies. It is necessary that governments make exceptions

for special activities, but some conformity to the unity principle acts as a desired brake on excessive encouragement to the growth of public debts.)

Other reasons dealing with legislative control and similar elements can be noted in the discussions of the several leading budgetary students. (It is difficult to reach even broad theoretical conclusions regarding the need for, or the desirability of providing, an independent budget status for governmental functions which differ from those involving ordinary outlays and financing media. The problem has been widely discussed by many writers including Buck, Jèze, Neumark, and others who, in addition to Allix, develop interesting points. However, they are unable to commit themselves to any definitive opinion on the subject. The range of the various governmental policies and activities is too wide to permit the universal application of any single viewpoint.)

Besides the (desire to segregate commercial and industrial activities,) there are other motives for the creation of special categories and accounts (tending to diminish budgetary unity) There are many reasons which grow out of the (adoption of special economic or social programs.) Various self-balancing activities carried on by corporate or other governmental instrumentalities, including those semi-independent lending and spending agencies, are included. While many such activities are accorded an independent and extra-budgetary status, there are likewise instances of functions which are closely linked to the general finances through their inclusion in annexed or otherwise related multiple budgets.

(Government monopolies including the postal services, independently financed funds, and a large variety of segregated accounts are examples of such functions. The most significant factor in the impaired budgetary unity of many jurisdictions, including the American states, is the practice of earmarking tax revenues for specific purposes.) No effort has been made to analyze the accounting arrangements whereby the trust funds found in almost every jurisdiction are linked to the general scheme of the finances. However, it should be noted that they are often responsible for various types of budgetary segregations.

Net and Gross Budgeting

In other studies of special or segregated funds one of the most commonly discussed questions deals with the (manner in which net balances are transferred to the general budget accounts. Different types of control and different degrees of independence are involved in selecting the several modes of connecting the various budgets. Some phases of these methods are covered by the popular question of gross and net budgeting.)

(Under a system of gross budgeting, totals of income and outgo rather than balances of the segregated accounts are shown in the general budget. This may be the practice followed not only with

respect to the multiple budget accounts but also with independently-financed activities which are included within the general budget. When net budgeting practices are followed, only excesses of income or outlay are shown. For example, the practice of gross budgeting of the postal services would be shown through the presentation in general budget summaries of the total receipts and total disbursements of that service. In connection with tax revenues, total yields and collection costs would appear as income and expenditure, respectively. Under net budgeting practices affecting governmental enterprises only the net surplus or deficit of the postal services and the tax yields available for general expenditures (other than tax collection costs) would appear. This is implied in the practice of net budgeting of assigned revenues collected by the segregated agency. (The choice of methods is important with respect to information, classification, and the question of total burdens and costs)

No effort has been made in this study to compile information with respect to the current status of gross and net budgeting. Where a practice of linking only the cost of a particular function to the general budget is followed, the general budget may carry the entire scope of the income and outlay of this function or only its net results. It is evident that there is no difference with respect to the balancing of income and outgo. (The size of the receipts and the disbursements, which are shown in the budget total, naturally vary according to gross or net budgeting usage, but the equilibrium is not affected.) Even complications growing out of the lack of a uniform practice with respect to net and gross budgeting do not require any qualification of the conclusion regarding the effect of the usage on fiscal balance and its measurement. In Great Britain, for example, the general budget statements show the gross income and outlay of the Post Office but include only the net receipts from crown lands and the net expenditures of the Stationary Office and the Mint.

(The trend among the leading nations appears to be towards net rather than gross budgeting. Buck notes that among the governments of continental Europe recent practice generally favors the use of net rather than gross budgets.) (The public undertakings—and there are many in these governments—are often budgeted so that their financial requirements do not appear in gross amounts in the general budget. Only the net surplus or deficit in each instance is shown.*

In some of the smaller countries, which have been subject to financial stress and for which loans involving external control have been made, a tendency towards the inclusion of gross items has been noted. Nevertheless, even in these jurisdictions only the net financial results of the various monopolies and public undertakings are shown.*

* Buck II, *op. cit.*, p. 136.

* See L. of N., Pub. Fin., 1928-35, Austria, (p. 3); Poland (p. 5), and Yugoslavia (p. 3).

✓ The federal government of the United States varies its practices according to whether the particular functions are listed in the general budget summaries or appear in the annexed budgets. The former as a rule have income and outlays shown in gross amounts. For the Post Office Department and the Tennessee Valley Authority, net amounts of expenditure excesses appear in the 1938 Budget Message summary. The District of Columbia finances are linked to the general budget on a net basis; the federal contribution alone will appear in the general budget summary.*

(For any studies concerned with questions of total revenue burdens or of total governmental costs, it is important that the practices with respect to net or gross budgeting be known.)

✓ Loan Expenditure Budgeting

Another point stressed in connection with the multiple budget phase deals with (methods and devices for the segregation of loan expenditures. This point is important in any study of national finances since borrowing is widespread and is usually not limited to the occasional financing of specific functions.) There is, furthermore, little question in the case of the national governments that borrowing should or ever will be limited.

Only the most reactionary or the uninformed would deny to governments a participation in the use of national savings by imposing a limitation on public borrowing. As national economies develop, their governments tend to increase the scope of activities which normally may be financed through credits. The funds for these functions are derived from actual or projected accumulations of capital. (It is equally not necessary to consider all borrowing as deficit financing, though the choice of a pay-as-you-go plan may imply such an interpretation. (In jurisdictions having limited tax revenues and requiring large capital investment outlays, the proper use of borrowing is encouraged rather than discouraged by sound budgetary principles.) The gradual transition of the public economy from a participating to a controlling share of the national economy implies an allocation of national savings through the judicious investment of loan expenditures. For this reason (national budget systems are not to be criticized for providing devices whereby the planned use of public debt operations may be achieved.)

✓ (The fact that borrowing has been a universal factor in the fiscal policies of national governments has given rise to many different techniques and devices for dealing with debt operations and giving them a place in the budgetary accounts. The impaired unity that results from a segregation of loan expenditures is not objectionable *per se*. However, the unstable character (and inter-

* The recommendation for such a contribution was omitted in the 1938 budget document pending the completion of the report of a committee studying the fiscal relations of the District and the federal government.

pretation) of the criteria chosen for allocating expenditures to the loan categories is well known.) For this reason segregation policies and varying bases of account classification are commonly associated with desires to minimize the deficits linked to the current budget. (It is necessary to establish clearly the basis for expenditure to be financed by borrowing. A failure to do so defers the recognition of, and necessary reaction to, fiscal crises.)

A segregation which will aid in identifying the true reasons behind resort to debt financing involves establishing financing methods to be associated with certain types of functions under given conditions. (A capital account as a feature of a budget program does not imply any infraction of a reasonable interpretation of the unity principle. On the contrary, it is likely that a failure to segregate such borrowing will cause misinterpretation of any similar financing during periods of stress. A plea for a specific segregation of loan-expenditures in the budget is made, by a leading fiscal scientist, who does not fail to note that questions of general fiscal policy and economic orientation are involved.) He has stated:

(New loans to create new public assets, or to turn over existing assets from private into public ownership, should stand outside the ordinary budget, which should take account only of current revenue and current expenditure. There is much to be said in principle for constructing also, and publishing alongside the ordinary budget, a budget showing income and expenditure on capital account. And in some countries this, or something not unlike this, is done.) In practice, however, there are many difficulties of definition to be overcome.

(The problem of allocation to which Dalton alludes as being inherent in any efforts to put the creation of separate loan expenditure categories into operation is the one which has led to actual difficulties.) It is (especially whenever periods of financial stress or desires to minimize deficits are encountered) that budgetary systems put to a strain. It will be shown below that the methods chosen can be rendered ineffective in terms of their original purposes by the continual shifting of items between the loan-financed and the other categories. For this reason an emphasis on loan-expenditure accounts is justified by their relation to the influence of budgetary practices on questionable fiscal policies.

(While there appears to be some degree of uniformity in connection with the setting up of separate budget categories for various activities, enterprises, and funds, the methods with regard to the treatment of borrowing offer many different types. The variations reflect not only different traditions and standards of efficiency and fiscal policy but indicate also the widespread choices which are available with regard to fiscal policy. The methods

† Dalton, *op. cit.*, p. 13.

will further indicate the highly elastic interpretation of "balanced budgets" which must be accorded to fiscal systems in which revenue items other than tax receipts and expenditures other than current expense costs are noted.) It appears that only a few of the jurisdictions have refrained from trying to link loan expenditures to productive assets, thereby minimizing the deficit connotation of borrowing.

Discussed Phases of Budgetary Unity

In order to illustrate (the influence of budgetary unity on fiscal accomplishments and efficiency, three of the main categories of unity principle offenders are studied in this section. First, under the generic heading of Multiple Budgets and Budgetary Unity (Chapters XI and XII) the normal practices with regard to the segregation of particular fiscal items are analyzed. Commercial and industrial activities, self-balancing enterprises, and various groupings of capital outlay and loan-expenditure items are the most common elements in the category leading to a modification of budgetary unity.)

In terms of the present problem it will be necessary to analyze (the significance of multiple budgets in the planning and execution of budgetary balance, and in unmasking and otherwise discouraging the toleration of concealed and disordered finances.) It will be necessary to analyze the situation in each jurisdiction and to distinguish the advantageous and necessary practices from those which may lead to undesirable encouragement of fiscal disorder.

(It is also essential that the time and the circumstances associated with the introduction or modification of a particular practice be appreciated. The fact that a jurisdiction seeks to avail itself of "acceptable" devices just at a time when there are symptoms of financial distress tends to arouse suspicion.) In the case of independent budgets for segregating loan expenditures, this aspect is particularly significant. One of the grave dangers to the impairment of budgetary unity is the intensification rather than the amelioration of the difficulties which motivate any change.

(Secondly, the problems analyzed in Chapters XIII and XVI treat with crisis, extraordinary, or emergency finances, and their influences on budgetary unity. Non-recurrent, exceptional, temporary, transitional, emergency, and recovery items come to mind. The efforts of national governments to cope with the effects of economic disturbances have led to the creation of numerous special budget categories which are discussed under the heading of "Extraordinary and Crisis Budgets.")

(The segregation of loan-expenditure and related items is a feature of both normal and emergency financing. The classification of current and capital items is an example of the former. The problems are discussed in connection with multiple budgets. The "emergency" budgets of war and post-war periods and those created for financing monumental public works and intervention-

ary programs are examples of extraordinary budgets.) (This arbitrary distinction is justified by the fact that the extraordinary type of budgets are well-known sources or symptoms of financial disorders.) Creating such budgets (represents attempts to deal with new and unprecedented financial problems.) (The extraordinary accounts are unlike any of the permanent devices used to carry self-balancing or loan expenditure categories which are assumed to have a regular place in the fiscal systems.) The extraordinary budgets, as their name connotes, deal with exceptional and non-recurring phenomena which are treated in a manner that indicates a desire for their separation from the more normal phase of the financial program.

(Thirdly, fiscal and budgetary practices which are not always associated with budgetary unity are studied. There is some question as to the validity of discussing the problem of the assignment of revenues for particular purposes in terms of this cardinal budgetary principle.) Nevertheless (continental writers have deemed the question of sufficient independence and importance to warrant an analysis in terms of a separate budgetary principle.* (The usual policy guiding conclusions has been emphasized, and with few exceptions the theoretical writers hold no briefs for assignments) unless reasons other than those of budgetary efficiency require an infraction of the negative dictates of the principle. In some respects the problems lie beyond the scope of budgetary analysis and even outside the field of public finance and economics.

Some students support the writer's practice of mentioning the revenue dedication problem in terms of the unity principle. They include as one of the sub-definitions of the principle the idea that all revenues serve as financing media for all expenditures of a particular jurisdiction. A broad viewpoint requires a discussion of the problem in terms of all the phases and procedures associated with carrying particular items in the budgetary system. In so far as assigned tax revenues, particularly in the American states, have led to the existence of specific-use funds and have in many cases brought about systems of multiple budgets, there is no necessity for further justifying an analysis in connection with unity.

(The budgetary problems linked to dedicated revenues are treated in this study in terms of taxes, of purposes for which the earmarked yields are set aside, and of jurisdictions, both national and state.)

Problems of Budgetary Unity in National and State Finances

It has not been found advisable in this part to follow the usual procedure of discussing each of the three main problems in terms

* Jéze-Neumark, *op. cit.*, Part II, Chap. 2, Sec. 2 "Grundsatz der Unzulässigkeit einer Zweckbindung öffentlicher Einnahmen; Neumark, *op. cit.*, Chap. III Part A. Sec. 3, "Der Grundsatz der Unzulässigkeit einer Zweckbindung budgetärer Einnahmen." For further references see "Budgetary Principles," *op. cit.*, p. 261-262.

of national and state jurisdictions. (The conditions which are faced by the various governmental units vary in connection with budgetary unity even more greatly than they do with problems of comprehensiveness.) Furthermore, there have been difficulties and irregularities in the collection of basic data regarding fiscal practices which have encouraged the elimination of some phases of the discussion as far as the American states are concerned.

(In national governments a vast variety of problems growing out of public enterprises such as are seldom found in the state jurisdictions are noted.) In the former there are all the fiscal activities which have been mentioned above in connection with the discussion of multiple budgets. The existence of such elements in the fiscal systems of the American states is rare. (There are few outstanding examples of state commercial and industrial enterprises.) Not since the pre-Civil War days have the states engaged in establishing such enterprises financed by issues of state and state-guaranteed loans.⁹ It is probable that publicly-owned liquor stores, involving only minor financing problems, are the most prominent examples of state-conducted business enterprises. The few segregated or self-balancing economic and social programs, which give rise to governmental receipts and outlays, can be linked almost exclusively to the study of assigned tax revenues.

Furthermore, (public debt operations of the type found in national governments are neither widespread nor important in the states.) It has already been noted that such borrowing as most of the American states may do must necessarily fall outside the scope of the normal budget operations. Executive proposals and legislative sanction are not usually in themselves sufficient to permit the legalization of new loan issues. In order to interpret the budgetary problems linked to borrowing by the states, it would be necessary to analyze in great detail borrowing limitations and their modification and avoidance, sinking fund provisions and practices, public works policies and capital construction programs, and more recently, federal aid in relation to borrowing. Other factors not analyzed in this study would also have to be taken into account. (From the point of view of tracing budgetary influences on fiscal policy and on the efficiency of the public finances in general, little is lost by omitting a discussion of the loan expenditure features affecting budgetary unity in state finances. It will be recalled that loan proceeds were also not stressed in the discussion of extra-budgetary elements in state finances.)

However, in view of the possible revisions of state attitudes and potentialities with regard to public debts as financing media,

⁹ A splendid discussion of the public debt operations during the early history of the states and of the subsequent growth of constitutional limitations preventing state borrowing for economic enterprises, is found in H. F. Secrist, *An Economic Analysis of the Constitutional Restrictions on Public Indebtedness in the United States*, University of Wisconsin, Economic and Political Science Series, Vol. VIII, No. 1. (Madison, 1914), *passim*.

and because of New York State's large scale borrowing in recent years, an effort will be made to summarize some of the national experiences. They may be of value in formulating future state budgetary practices.

(There need be little question regarding the advisability of omitting any references, in the chapter dealing with extraordinary and crisis budgets, to the finances of the American states.) There have been no opportunities or necessity for the states to indulge in practices such as those outlined in the discussion of national finances. It seldom falls within the scope of political subdivisions to engage in large scale economic programs, public debt operations, monetary manipulation activities, or in other extraordinary financing media linked to special budget categories. However, again several possible implications of conclusions drawn from the practices of national jurisdictions are mentioned as guides for determining possible changes in the character of state financial activities.

(In the chapters dealing with assigned revenues the most significant aspects of budgetary unity problems in the American states are discussed. Tax as well as some non-tax revenues which finance segregated activities are analyzed.)

CHAPTER XI

MULTIPLE BUDGET SYSTEMS

In view of the foregoing discussion of the character of the budgetary unity problems surveyed in this chapter, the study of the practices of the several jurisdictions may be undertaken without further analysis.

Great Britain

{Great Britain, within the various classifications and categories of its normal budgetary system, has the ability to segregate numerous kinds of fiscal activities without resorting frequently to practices involving multiple budgets.}

(The segregation of items on the basis of a continuing and annual status has caused the creation of the so-called Consolidated Fund Services and the Supply Services.) A further classification is maintained for the sinking fund, to which surpluses accrue and to which sums are periodically assigned for the purpose of meeting debt service charges. A fourth category includes the surpluses and deficits of the self-balancing and other funds linked to the general budget. The adequate classification, in addition to the well-developed Consolidated Revenue Fund concept, has been instrumental in furthering the maintenance of a unified budget system.)

(The fourth category of self-balancing expenditures and revenues links the funds which are similar to those set up in annexed budgets elsewhere. The various special funds use the proceeds arising out of their own activities as well as receiving funds from the general budget. (A strict scrutiny of their accounts and a fixed relationship to the general fiscal scheme is uniformly maintained.) It was an exceptional occurrence which led to the 1926-27 raids on the road fund, one of the so-called self-balancing items. Mallet and George¹ report that the efforts to shift around funds and to destroy the independence and integrity of the self-balancing accounts were greeted with cries from the opposition benches of "stealing, larceny," and what was perhaps literally true, "highway robbery.")

The Unemployment Insurance Fund, now one of the so-called self-balancing items, was set up as such after its independent status played a culpable rôle in the financial crisis of 1931. (The Fund had borrowed in anticipation of receipts which did not materialize and was then called upon to make increasingly greater expenditures. In order to continue to function it had to receive substantial assistance from the general budget.) This aid had not been anticipated.

In addition to the accounts already mentioned, those in the self-balancing category include the Forest Fund, the Local Loan

¹ *Op. cit.*, p. 29, also Hills and Fellowes, *op. cit.*, p. 78.

Fund, the Postal Savings Bank and Trustees Savings Bank Funds, and the depreciation funds.) Even the Exchange Equalization Fund, which is usually less formally linked to the general financial scheme, should be added to this list. (Among the trading and commercial services of the government which operate with periodic profits or losses and which are linked to the general budget are the Post Office, Stationery Office, and the Mint.)

The type of budgetary treatment of debt operations which is now found in Great Britain represents a sound approach to the problem. (There is apparently no more borrowing by autonomous funds) such as was experienced with the unemployment insurance scheme. (All borrowing is now linked to the Consolidated Fund. Receipts from all sources including borrowing, are noted in the statements accompanying the budget speech.) That part of the income which is expected to be received from increases in the public debt is treated as the prospective deficit. (No differentiation as to purpose is recognized, nor are the capital construction activities financed by loans segregated.)

(The British method is a most desirable one since it involves periodic review and clarified links to the general financial scheme. Nevertheless, a sufficient recognition of the exceptional status of commercial and other independent enterprises is maintained.) Furthermore, there is no indication that any exceptional status has been granted which is not economically and financially justifiable.) Particularly with reference to fluctuating economic backgrounds and their resultant influence on budgetary balance, one finds little likelihood of the independent accumulation of debts and deficits, which is possible in a jurisdiction maintaining a system of multiple budgets. Most important is the fact that (there are no efforts made within the budget system to set up arbitrary classifications regarding legitimate financing and deficits.)

In terms of the criticism which Allix and others have leveled against the strict application of budgetary unity, it may appear that the commercial enterprises are not accorded a sufficient status of their own. (The dire results which these authorities have predicted for public commercial enterprises which are subordinated to normal budgetary procedures have not been realized.) One is tempted to conclude that the British methods indicate the desirability of conforming to the theoretical principles regarding budgetary unity.)

The Empire Group

The Dominions of the Empire and the Irish Free State generally follow the practices found in the mother country, though in at least two or three of the nations budgetary unity appears to be slightly impaired in favor of segregated loan expenditure categories. In Australia all items are included in the ordinary budget. This includes the fiscal activities of the Commonwealth's several business enterprises, such as the railways, and of the self-balancing items, including the Post Office. As in England, all funds are received and paid out of the Consolidated Revenue

Fund, and all sums are included in the total for the prospective balance. (The existence of the Commonwealth Loan and Consolidated Trust Fund aids further in coördinating the various activities which give rise to credit operations. In this fund all expenditures financed by loans are segregated.) It was originally intended that only capital investments be included. As is frequently the case, other items found their way into the category. This eliminated the need for finding additional tax revenues and facilitated general deficits. The deficits of the Consolidated Revenue Fund have in recent years been financed by the Loan Fund. This renders it impossible to consider the Fund's balances as indicative of either deficits in current items or of strictly financial movements in capital assets.

(In Canada the segregation of items into three categories, namely ordinary revenues and expenditures, capital expenditures and receipts, and special expenditures and receipts, enables the government to carry all items within the budget.) All categories are included in the budget speech statement and in the public accounts. There has been some confusion with regard to the capital account category which Canada has maintained and to which expenditures on canals, railways, and public works have been traditionally allocated. It is intended that this category include the items which in the course of their financing require capital outlays. The business enterprises are included in the capital category only with respect to that portion of their activities to be financed out of debt operations. Such expenditures undergo the usual budgetary review and control not accorded to the extra-budgetary special items. As in the sister dominions, all funds are paid out of the Consolidated Revenue Fund, and all sums are included in the total for the anticipated balance.

An observer has pointed out that (one of the usual practices associated with multiple budgets, namely the shifting of current items, can be traced to the capital account. Regarding the capital account we are told:

The Finance Minister in Canada—recent years excepted—has declared to Parliament and to the country that his budget was balanced if ordinary expenditures were less than ordinary revenues, even though total expenditure was much in excess of total revenue. On this basis a surplus has been announced in fifty of the sixty-five years since 1867. But if the accounts had been presented by the federal government in Canada as they have been by the federal government in the United States, a surplus would have been announced in only fifteen of these years.*)

(The author gives several examples of specific abuses which justify some of the theoretical indictments of multiple budgeting.)

* J. S. Maxwell, "The Distinction Between Ordinary and Capital Expenditure in Canada," *Bulletin of the National Tax Association*, Vol. XIX, No. 5, Feb., 1935, p. 147.

(In recent years, dating since the war, the Canadian fiscal authorities have refrained from restricting their interpretation of a balanced relationship between income and outgo to the ordinary account.) As indicated in the appended chart, all budgeted expenditures are compared with all prospective revenues in the plan presented to Parliament. (Canada's early experience shows that there is a danger that there will be a shifting of items back and forth between the two elements in the budget, especially when there are no legal definitions of the differentiating terms which the items in the capital category should possess.)

(In British India, with the exception of the State railways, all activities are segregated in accounts which are closely related to the general budget.) (Borrowing for all purposes is recorded in accounts for loan-expenditure items. Shirras has pointed out that strict classification is maintained, and none of the items which should be financed out of tax revenues are carried in the "other non-revenue expenditure" category.)* This would indicate a practice which clarifies deficits in relation to loan expenditures. It is evident that (the British tradition with regard to budgetary unity, as well as the absence of any incentives for disintegrating the finances, has resulted in the maintenance of a unified system.)

The Irish Free State and New Zealand segregate capital outlays, but the former nation has not set up any special fund to carry these items. In the first-mentioned jurisdiction receipts from anticipated increases in the public debt are segregated under "other receipts." The accounts which are balanced in the statement accompanying the budget speech treat that part of the income arising from projected debt increases as the prospective deficit. Deductions have already been made for capital expenditures to be financed through loans.

New Zealand has in recent years created a Public Works Fund in which all capital construction outlays are segregated. The prominence of public works during the depression and the desire to associate the deficit in the public mind with capital assets no doubt favored this budgetary procedure. It is interesting to note that the segregated capital items are not immune from the usual budgetary procedures. Annual authorization of expenditures estimates takes place. Apart from any other motivations, the practice of segregating these loan-financed expenditures must serve the same purpose it does in other units, namely the minimizing of the importance of the gross deficit measured between all income and all outlay. The loan fund constitutes an independent budget, and its totals do not enter into those used in measuring the anticipated account balance. In the calculation of any prospective deficit only some portion of the proposed debt receipts for public works or for general purposes are considered; the rest constitutes the planned deficit. The scheme involves operations similar to those which can be noted in Sweden. It is

* Letter to the writer from Professor G. Findlay Shirras, President, Gujarat College, University of Bombay, under date of Jan. 12, 1936.

evident that New Zealand has met with familiar difficulties in carrying out the arbitrary plan of allocating expenditures subject to loan financing.

United States Federal Government

The practices of the United States federal government involving segregation can best be analyzed in connection with the discussion of emergency and extraordinary budgets. (The normal practices do not point to any widely impaired unity.) The finances of the District of Columbia and two of the permanent autonomous governmental bodies are carried in annexed budgets. The post office activities are also carried in an annexed budget. All the other agencies which have no extra-budgetary status are carried in the general budget accounts. The segregated recovery and relief activities are those of the Reconstruction Finance Corporation and the Tennessee Valley Authority.

Data and recommendations with respect to the annexed budgets are submitted simultaneously with the general budget and are, therefore, not individual or independent to a degree which marks certain other multiple budgets. Furthermore, the balances of the annexed budgets are carried over to the general budget. In the case of the Reconstruction Finance Corporation, this linkage is carried out separately for the direct operations of the Corporation and for the operations of certain other agencies using funds allocated from the Reconstruction Finance Corporation. The annexed budget for the Reconstruction Finance Corporation thus serves the primary purpose of bringing together in one place details regarding a number of affiliated agencies, all of whose transactions are reflected directly in the Treasury's accounts.

The apparent unity of the system can further be established through the methods noted with regard to (public debt operations,) a policy which now can be subject to little criticism. (As in England, any efforts to link the debts to specific outlays are unofficial in character. The policy concedes that all new debts represent a deficit.) Control over borrowing, as over taxation, is retained in the hands of Congress which must authorize the incurring of all debts. (However, the practice of allowing borrowing up to large amounts and of fixing the maximum debt within which fluctuations may occur is followed.) It has meant that the Treasury, representing the administration, may act over long periods of time independently of specific Congressional authorization.⁴ Congress has not felt it necessary to have the Administration limited by other than broad blanket permission. No plan

⁴ On Feb. 4, 1935 the President approved an Act which set the maximum of government securities of all types which may be outstanding at one time at \$45,000,000,000. Formerly a maximum had applied to the amount of short-term securities which might be outstanding at one time; with respect to bonds, non-recurring authority to issue up to a certain amount had been given. In addition to reallocating the representation of various security types in this sum the Act authorized a new type of small denomination bond (Baby Bond). *Annual Report of the Secretary of Treasury, 1935*, (Washington, 1936), p. 18.

for a periodic review of the borrowing power, authorized but unused, has been entertained. Since the Treasury may carry on independently a large variety of short-term financing and re-financing and realize some assets, it may in this respect be considered to enjoy unchecked privileges with regard to these sources of funds.

(There has been no attempt to conceal or otherwise to exclude public credit operations from the full publicity and accounting emphasis which are associated with tax revenues.) The Treasury has not always been engaged in financing capital improvements by means of credit operations. For this reason net increases in the public debt are associated in the public mind with deficits. (The federal government indulges only to a limited extent in the practice of borrowing through many independent agencies.) It is most common for any deficit actually realized to be met with the receipts from financing operations or out of existing cash funds not replenished, as normally would be expected, out of tax revenues.) In the case of planned deficits there has been a tacit assumption that deficits between tax revenues and total expenditures would be met with borrowing. In the latest budget documents a section of the General Budget Summary (Means of Financing Deficit) and a Supporting Schedule have clarified the proposed debt increases. At all times the amount of the public debt outstanding can be readily ascertained. (Effective publicity is given to matters relating to public debt operations), and any misunderstanding with respect to the nature of the deficit does not arise because of inadequate knowledge regarding the amount or time of incurrence of the outstanding indebtedness.

During the years some fiscal policies have been responsible for different administrative practices. The unity of the federal system, as far as debts were concerned, was none too evident. Certain government corporate instrumentalities have recently issued securities of their own. It will be recalled that the first financing of the Reconstruction Finance Corporation involved a sale of its stock to the Treasury. Expenditures were made out of the receipts from the funds obtained, without any recognition of the expenditures as having been related to others made by the federal government. The policy was no doubt pursued in the absence of an accepted practice with respect to the financing of such agencies. It will be noted that the Daily Treasury Statement in later years has indicated the nature of this transaction and that footnotes have been included to indicate the changes needed to render governmental records of expenditures useful for comparative studies.

At present the debts created by agencies which are authorized to pledge the credit of the United States do not receive recognition in the total outstanding debts.) There is, therefore, the problem of contingent liabilities which have not been recognized as constituting increases in the public debt or as constituting potential expenditure commitments. The Federal Farm Mortgage Corporation, the Home Owners Loan Corporation, the Reconstruction

Finance Corporation, and the Tennessee Valley Authority were among the agencies empowered, within stated amounts, to issue obligations, the principle and interest of which are guaranteed by the federal government. Statements of the Public Debt issued periodically by the Treasury comprehend all data with respect to contingent liabilities of the government. Such commitments are not linked to debts which recognize actual contractual liabilities incurred.

It is known that the public records which may be considered a feature of the federal budget system have, within such limits as are allowed by the statutory enactments, undergone many significant changes. The fact that all budgets submitted since 1933 have contained new methods, additions, or recommended modifications shows the need for the constant adjustment of the finances to the circumstances of dynamic financing problems.

(In conclusion, it may be noted that not many instances of the objectionable multiple budget practices which are found elsewhere can now be said to play a significant role in our national finances.) (Firstly, there are not many corporations and lending agencies, other than the Treasury, which possess the authority to borrow or to levy assessments,⁵ and in the case of most of these their administrative expenditures are now limited.) Secondly, such segregation as does take place is not for the purpose of concealment or misinterpretation.) (Thirdly, receipts from proposed increases in the direct public debt have been clearly included within the planned budgetary programs and, within the limits that the financial practices allow increases in the public debt, have been treated as synonymous with deficits.) This practice allows explanation to be made in the form of possible offsets but does not encourage or require any independent calculation in order to arrive at a gross deficit. While the system does not display any tendencies to place a lesser emphasis on items linked to the direct public debt, it is not possible to ignore the fact that the contingent debt is not linked to the periodic balances.

Germany

(Germany deserves mention among the nations which provided elaborate methods for eliminating the necessity for special or annexed budgets. It is evident, however, that the system provided for in the basic legislation was planned so as to maintain a consistent arrangement rather than a completely unified budgetary treatment. A so-called total or *Gesamt Plan* for the budget was in force. In the *Plan* were included, in addition to the Ministries and individual governmental bodies, the functions and activities carried on by some of the commercial and industrial enterprises of the state.⁶ These enterprises were numerous, but with the excep-

⁵ The Federal Deposit Insurance Corporation is an example of an agency that is empowered to borrow and to levy assessments.

⁶ A similar plan of the budget appears to have been used in Spain prior to the recent disturbances. "The budget is divided into two parts—namely charges of the State (Office of the President of the Republic, Legislative

tion of such activities as the German State railways, which were for specific and justifiable reasons maintained on an independent basis, they were all to be carried within the framework of the *Plan*. The segregation of the self-balancing alcohol monopoly and postal services has already been discussed in relation to extra-budgetary items. Net deficits and surpluses appeared in the *Einzelplan* of the Ministry in charge of the activity.

(Germany's *Plan* also provided for an extraordinary budget.⁷ Its purpose was the segregation of loan-expenditures for "productive purposes." This nullified the elaborate efforts with regard to the categories within the budget.) As is frequently the case, those concerned with fiscal matters have claimed that ordinary expenditures were financed by the extraordinary fund contrary to the spirit of the initiating legislation. The ability of the unified system to have functioned without a catch-all extraordinary outlet is questionable. Taking past conditions into consideration, any attempt to understand Germany's unified *Gesamt Plan* must be made in terms of the history of its extraordinary budget. The fact that this budget could not tap unlimited credit resources should be mentioned at this point.

(Borrowing problems were unique because Germany under the Republic operated with constitutional as well as statutory limitations on the rôle of public debts in fiscal policies and in the budgetary system. Expected receipts from loan operations had to be specified in the budgetary revenue estimates.) The proposed increases in the public debt were segregated in the *Einzelplane*. These categories were used primarily for loan-expenditures, but on numerous occasions the question was raised as to whether or not certain non-tax revenues should have been likewise allocated to the extraordinary group. It will be noted below that Denmark faced the same problem. The desire of those framing the basic budgetary legislations, namely to obtain the segregation of current revenues with ordinary outlays and of receipts of loan emissions with extraordinary expenditures, appears to have been the source of some confusion. Dalton's authoritative study notes:

Ordinary Revenues include such items as receipt from Administration, realization of Reich property (with the exception of land), surpluses of Reichspost, dividends from the Reichsbahn, Reich's holding in various undertakings, and the yield of taxes. It is not clear whether the yield of a non-recurring tax should necessarily be placed in the Extraordinary Budget. There are grounds for stating that, when this kind of tax is as onerous as, e. g. the Emergency Property

Chamber, Public Debt, Pensions and Annuities, Court of Audit) and charges of the ministerial departments, which are at present divided into eighteen sections. A distinction is made within these sections according to whether the charges are permanent, temporary or in respect of closed financial years. Each section is sub-divided into chapters, articles and items." L. of N. Tech. Comm., Vol. III, p. 118.

⁷ See p. 178.

Duty (capital levy)) of 1919, its yield should be devoted only to exceptional needs and therefore, it should appear in the Extraordinary Budget. Apparently, however, it would not be illegal to put a non-recurring tax in the Ordinary Budget, since the law on this point merely states a general principle and not a strict injunction.⁸

The fact that this was legislation attempting to prevent the use of borrowing to finance ordinary expenditures indicates that the setting up of the extraordinary category was for the purpose of restricting the use of borrowing. During the period between the date of stabilization and 1932 it was evident that items, which fiscal scientists would probably consider ordinary under most common classifications, were allocated to the loan-financed group.

(The German experience during the period brings out the point that tradition and governmental policy, rather than constitutional and statutory provisions, can more effectually prevent deficits. While the German legislation tended to limit the scope of borrowing by the national government, the Reich's methods of coördinating federal and local finance prevented the restrictions from being effective over the entire nation's fiscal system.)

An interesting provision, designed to prevent the inflationary excesses of the post-war period, was the requirement adopted in 1927 that the government must possess reasonable surety as to the successful completion of the proposed long-debt operations before it may make any expenditures to be financed by such measures.⁹ This practice tended to prevent the incurring of expenditure liabilities outside the scope of the planned and successfully floated bond issues. Such practices did not, of course, prevent deficits but aided their recognition and added considerable emphasis to their existence. As in many other countries short-term debt operations used for the financing of temporary deficits appear only in the budget when not retired as originally planned.

The stringent German requirements with respect to the handling of public debt operations made certain types of fiscal policies impossible. The requirements were subsequently revised. Its effectiveness can be measured only in terms of its own objectives and not as a successful feature to be universally recommended. The inability to borrow without resort to inflationary means necessitated a curtailment of expenditures, a policy which for example would not be forced by the French system or that of the federal government in the United States. The American states, however, are familiar with the practice.

It is interesting to note that the Germans have been accused of employing various devices to defeat the restrictions since the breakdown of the loan market in 1931-32.¹⁰ The abolition of the

⁸ Dalton, *op. cit.*, p. 23.

⁹ Neumark, *op. cit.*, p. 28.

¹⁰ The debts of the German System mounted very rapidly during 1929-30 and 1930-31, viz, by 3.45 milliard R.M., or 30 per cent, in the former year and 3.0 milliards, or 20 per cent, in the latter. This development

extraordinary budget category came about when internal and external monetary and capital conditions made it impossible for the Reich to float loan obligations successfully without engaging the bank loans which were so disastrously linked to the great post-war inflation. Until the fall of the Republic it was possible for the extraordinary budget to be reinstated at any time. The deflationary policy pursued by the government in power and the desire to adhere strictly to orthodox financing principles may be considered as the explanation for the fact that the extraordinary budget was not instituted.

The suspension of the Constitution naturally removed the legal bars to loan-expenditure policies, but the economic limitations remained. Both in the last periods of the Republic and under the successor government, various devices for meeting expenditures were devised in the absence of tax yields and realizable assets. Dalton refers to the practices which included the interesting Papen Tax Prepayment Certificates, as constituting an "invisible" budget in place of the abolished extraordinary category.¹¹

in 1930-31 was particularly serious in view of the strong ebb in the industrial tide which had set in during that time: its direct cause was the sudden necessity for filling the gaps left by the suddenly declining income resources of the different authorities. The banking crisis in the middle of 1931 dealt a rude shock to the possibilities of further credit on these lines, with the result that the exchequers were forced to seek a bedrock adjustment of income and expenditure without further reliance on credits. Consequently in 1931-1932, as we have seen, the total expenditures of the whole system (Reich, States and Communes) fell by no less than 3½ milliards whereas the net increase in new indebtedness was only 400 millions, or 2 per cent. The total debt liability was 24.18 billion R.M. at the end of March, 1932 and this was only 0.6 per cent higher than in March, 1931. Dalton, *op. cit.*, pp. 71-2.

¹¹ As a result of the extraordinary methods of financing current expenses forced upon the Reich by its inability to raise loans, it is necessary to examine carefully the "invisible" items which have assumed considerable importance since 1931. The device of meeting expenditures, such as public works or bank reorganization, by handing out Treasury Certificates which will fall due in the near future, has loomed large in the financial policy of the Reich in the last two years. This form of mortgage on future revenue is the substitute for the function which the Extraordinary Budget used to perform when the loan market was at the Finance Minister's disposal. One would obtain a very misleading notion of the real state of Reich finances if these "invisible" transactions were left out of account.

The chief way in which expenditure has been met without burdening the current budget are:

- (a) Treasury Certificates and Bills issued to finance Public Works, e. g. the Brüning, Papen, and Hitler schemes.
- (b) The Tax Vouchers granted under the Papen Plan of September, 1932.
- (c) Treasury Certificates given as Government subsidies or assistance to reorganized undertakings.
- (d) Guarantees undertaken by the Reich.

Ibid., p. 87.

An analysis of the tax prepayment certificates is found also in Gerhard Colm, "Why the Papen Plan for Recovery Failed," *Social Research*, Vol 1, No. 1, p.p. 83-97.

The new practices of course involved some form of borrowing and the pledging of credit, and even before the suspension of the legislation, readily overcame the barriers. The mechanisms apparently allowed for a flow of expenditures and did not necessarily imply an unavoidable deflationary policy.

(In recent years the National Socialist government has removed the last vestiges of the unity of the budget system.) Particularly in relation to public debts, a condition can be noted which is totally different from that which was operative under the Republic. (Semi-governmental agencies, central bank operations, and a host of independent budget categories have obscured the government's borrowing.¹² The uncertainties regarding outlays and the amount of the public debt render it impossible for observers to calculate the deficit.) It is interesting to note that no public knowledge exists not only because of the refusal of the government to make public the data but also because the impaired unity of the budgetary system is such that it is virtually impossible for the information to be compiled. Here the lines between a breakdown of budgetary unity and an extra-budgetary status appear to be stretched to a breaking point.

France

(The usual practices linked to independently financed multiple budgets are found in connection with the so-called annexed budgets of the French system. The accounts kept in these budgets in France include those for the Mint, Explosive, Post, Telegraph and Telephone Services and for the National Savings System (*Caisse National d'Épargne*). (The French State railways, as has been mentioned, have only a nominal link to the budget system and are best considered in terms of an extra-budgetary status.)

The French Post, Telegraph and Telephone Service has a unique position in the fiscal system as a self-balancing category. The annexed budgets were required by law to maintain their own reserves out of which they were expected to finance their own deficits, which were originally met by advances from the general budget.¹³ A procedure was devised whereby treasury advances were made directly to the Postal, Telegraph and Telephone organization. If within a stated period a surplus resulted, the organization was expected to repay the advances from the treasury and to add to its reserves. It was only then that surpluses accrued to the general budget. It will be noted that this practice is an extremely objectionable one since it allows deficits to be allocated directly to the treasury accounts without being considered in

¹² One reason why it is difficult to estimate the public debt is that the government has impressed into its labor creation program not merely the Reich, state and municipal authorities but also numerous public and semi public corporations such as the postal system, the State railways and other public utilities and agencies especially created for that purpose, such as the Reich Auto Road Corporation. N. Y. Times, March 5, 1937.

¹³ Jæse-Neumark, *op. cit.*, p. 131.

terms of the deficit linked to revenues and expenditures. During recent years it has again been in operation. It must, therefore, be considered possible that the interpretation of deficits and surpluses carried to the general budget does not readily measure the results of the immediately preceding period. A similar scheme calling for reserves and the obscuring of deficits is also involved in the annexed budget of the explosives manufacturing service.

It should be recalled that the important and lucrative tobacco monopoly is linked to the extra-budgetary *Caisse d'Amortissement*. The alcohol and match monopolies are also incorporated into the regular budget although the former is in some manner linked to the special treasury accounts. (In general, the annexed budgets give no indication of the financial accomplishments of all the activities which might reasonably be expected to be segregated therein. They add further confusion to an already difficult situation.)

(The methods of budgeting public debt operations are likewise not conducive to a measurement of fiscal accomplishments. Until 1936 the budget program submitted contained estimates of receipts from proposed increases in the public debt. In these funds were to be segregated the estimates of loan proceeds which could be used to measure the anticipated deficit. The segregation was not carried out.) Since various public works and other capital expansion programs, involving heavy borrowing over a period of years, have been adopted and have been segregated in other accounts, they have not appeared as the system intended. It has already been shown that, exclusive of the abandoned extraordinary budget, numerous autonomous accounts create debts of their own. More of the debt created for deficit financing purposes is thus concealed.) Only since the advent of the Popular Front governments have the secret dealings between the government and the Bank of France relating to the borrowings of the former been publicized. A correct figure for the indebtedness of the government has for the first time been made known.¹⁴ The most recent plan, involving a recrudescence of the extraordinary budget¹⁵ and a classification of the secret borrowings of the government from the central bank, should serve to remove some of the obscurity which has characterized the public debt operations of the government. The system recently replaced provided neither a check on the size of the deficits nor any opportunity for publicity.

(When governments are determined to pursue a fiscal policy which necessitates expenditures far beyond tax collections, it is useless to provide a budgetary system which cannot adequately comprehend such a policy.) The experience in the United States under the New Deal supports this view. (While the justification and interpretation of the deficit will always be the subject of debates, the facts regarding the current borrowings should not

¹⁴ N. Y. Times, June 28, 1936.

¹⁵ See p. 176.

be equally controversial. There can be nothing but condemnation for the system of a misleading inclusion of only a small share of the governmental borrowing within the budget categories, while vast debts are incurred through the autonomous Treasury and through various special accounts)

Just Sweden

(Sweden's elaborate efforts to adjust its system to its dynamic economic and fiscal policies are of interest. In Sweden the finances of the national business enterprises, along with the specific-use funds, are carried in special budgets linked to the main budget. Swedish observers with whom the writer has been in communication have maintained that annexed or extraordinary budgets do not exist. It is difficult, however, to note the difference between the so-called unified Swedish budget and what is commonly accepted as a system of multiple budgets.)

(The annexed budgets are exceptionally important in the Swedish economy and fiscal system. Their close link to the general budget is necessary in order that their influence on the stability of the Swedish financial system and their contribution of public debt operations may not be obscured.) The following quotation from the League of Nations survey indicates the manner in which (all items are composed into a capital expenditure category of the general budget or into the special annexed budgets.) It will be noted that (all borrowing is linked to the general budget.)

Public undertakings (Postal Service, Telegraph and Telephone Services, State Railways, hydro-electric power and canals, State domains, Printing Office) have special budgets of their own and are administered more or less independently. Their working budgets include in expenditure depreciation charges, which are transferred to special depreciation funds, and utilized to cover the costs of renewal of buildings, material, etc. Interest on invested capital is not charged to their working budgets. Expenditure for new investments is shown under the capital expenditure of the general budget of the State. The net surplus of (deficit on their working budgets is shown in the general budget of the State.¹⁸

The division of the general budget into real or current expenditures and capital expenditures facilitates the linking of these State commercial and industrial enterprises to it. By restricting the capital outlay category to investments in public undertakings, to increases in the capital of the self-balancing funds of the system, and to other productive purposes, it is felt that the financing of these expenditures through loans cannot indicate deficit financing.) All outlays are supposed to create assets or yield a return)

Because of some of the government's fiscal activities, not unlike the "recovery and relief" functions of the United States federal government, (it became necessary to broaden the definition of capi-

¹⁸ L. of N., Pub. Fin., Sweden 1928-35, p. 3.

tal outlays. Economists advising the government favored a social rather than a financial approach to the problem of productivity.¹⁷ Students might therefore interpret some of the capital expenditures financed by loans as signifying deficit financing.) For example, the 1933-34 and 1934-35 budgets showed under capital expenditures outlays devoted to ("make-work" unemployment relief activities.¹⁸) In any event the productivity of these outlays is not one which is to be tested by budgetary rules. (Even the traditional economic and financial interpretations are being revised.¹⁹ Such revisions will carry in their wake new budgetary interpretations. It is desirable, however, that the system offer full publicity on the chosen policy.)

Mention has been made of the special funds in Sweden's budgetary system. Contributions of capital to these funds have been included among the items admitted as capital expenditures. The following quotation explains the nature of these funds, which include several linked to special loans.

The loan funds represent a special category, granting loans for various purposes: dwelling-house construction, drainage, grain stores, dairy farming, fisheries, etc. On the one hand, the general budget of the State, under capital expenditure, makes grants to these funds to increase their capital, and, on the other, it receives payments from them on account of interest on the capital granted. In a similar connection with the general budget is the Excise Duties on Spirit Fund. The other funds, which also includes the donation funds, derive their receipts mainly from interest on their capital. Certain special funds, such as the Local Taxation Equalisation Fund and the Agricultural Price Regulation Fund, receive grants from the general budget. Only the church fund levies taxes

¹⁷ See Gunnar Myrdal, *Finanspolitikens Ekonomiska Verknningar* (Stockholm 1934), Part III, Chap. I.

¹⁸ L. of N., Pub. Fin., Sweden 1928-35, p. 3.

¹⁹ Dalton's comment on the changing concepts used for interpreting loan expenditure policy are of interest. He claims that if it is "legitimate in principle that expenditure on capital improvements should be financed by loans, and not from current revenue, it follows that it is legitimate to borrow, for example, for new road construction. Also for new school and hospitals. But also, if capital is used in a wide sense, as by Professors Irving Fisher and Pigou, so as to include human beings in their aspects of productive agents, it may be claimed that it is legitimate to borrow for all additions to educational and health expenditure, including new teachers' and new doctors' salaries. Professor Pigou's conception of 'investment in human beings' carries us very far along this road. But we must halt somewhere. Some authorities would halt at improvements which are sufficiently 'revenue producing' to pay their cost out of the prices charged to users. But this is unsatisfactory, since it makes the distinction turn on the particular price policy adopted. On the other hand, if capital expenditure is financed from current revenue, a budget surplus is, to this extent, created, a policy of 'sound finance' is pursued, and there is the additional social gain, that development takes place without the creation of new rentier income. Sound finance, in such cases, merges easily into Socialist finance, repugnant to rich taxpayers, as when the City Council of Vienna built working-class dwellings from the proceeds of luxury taxation." Dalton, *op. cit.*, p. 14.

which are not included in the general budget of the State. In certain cases, the State utilizes a part of the capital of certain special funds, for budget purpose, and those receipts appear in the general budget under the item "Capital assets employed."²⁰

(There is in Sweden a high development of the planned use of public borrowing operations both for general and capital expenditure purposes. All receipts from increases in the public debt are, as noted, carried in the budget system. A special category for receipts from loan transactions is maintained. The amounts, together with the category of "capital assets employed," are considered capital receipts. It is not the usual custom to consider the sums to be raised by loans, or a portion of them, as constituting the anticipated deficit. When, however, borrowing is made to finance past operations which are not completed according to schedule a deficit is recognized.) This is a variation of the practices found in Denmark and in the Netherlands.

(The Swedish system is complicated but offers an excellent budgetary medium for carrying out extensive and varied borrowing operations.) In comparison with French experience, for example, it can be seen that opportunities for objectionable manipulations and for the concealment of loan-expenditures may have been present but have not been employed.

The study of multiple budgets in national finances is continued in the next chapter.

²⁰ L. of N. Pub. Fin., Sweden 1928-35, p. 3.

CHAPTER XII

MULTIPLE BUDGET SYSTEMS—(CONTINUED)

Other European Nations

In Norway the special funds linked to the general budget as current and capital categories closely resemble those of Sweden. The Norwegian system has been described as follows:

The general budget contains the gross receipts and gross expenditure of the Administration proper and the net results of the working budgets of public undertakings and of certain special funds. Receipts and expenditures are divided into current receipts and expenditure and capital receipts and expenditures. Capital receipts comprise repayment of advances granted by the State, certain contributions by the districts to capital expenditure, transfers from certain special funds, proceeds of sales of State property and proceeds of loans. Capital expenditure consists of investments in public undertakings, of certain advances granted by the State and of amortisation of public debt.¹

There appear to have been some modifications in the classifications of items during the depression. This may indicate a typical breakdown of the criteria originally chosen for the segregation of capital items which are to be distinguished from deficits growing out of excess of current expenditures over current receipts. The League survey reports that in the 1929-30 and 1930-31 fiscal years supplementary payments of salaries to government employees were included under capital expenditures.² Such exceptions, if continued, would readily facilitate a questionable balancing of current receipts and expenditures.

The U.S.S.R. must be included among the countries which have engaged on a large scale in the operation of industrial enterprises. Because of the Soviet's planned economy it is unimaginable that the commercial and industrial enterprises would be treated as possessing some extraordinary character. It is equally inconceivable that a distinction of current and capital items could be disregarded. Various economic enterprises account for most of the fiscal items. Only a few expenditures and revenues not of a commercial or of an industrial character are carried in the so-called special budgets in which the various features of the economic program are segregated. The social insurance scheme and several other services are included in the special budgets annexed to the general budget. The system as such does not really involve much individual recognition for these special accounts since they are

¹ L. of N. Pub. Fin., Norway 1928-35, p. 3.

² *Ibid.*

included in the totals which are balanced. Naturally, all capital outlays and receipts from loans are treated as expenditure and revenue items. As a result debt operations are included in the budget as a feature of the capital accumulation program carried out by means of state loans. There is no attempt to measure deficits through increases in the public debt.

The criteria used for judging practices in other jurisdictions cannot be applied to a budget system which comprehends all the economic and financial activities of Russia's collectivized and planned economy.

Interesting practices among the other nations which have been surveyed include those of Denmark and Italy. In Denmark a highly efficient system of segregating capital items and of linking industrial and commercial enterprises to the general budget has resulted in a clarified relation of segregated items to normal financial procedures. The various special funds for the commercial and other special interests of the state are carried in annexed budgets. Various special funds have been established for functions related to real estate, loans, fire insurance, and pharmacy. A net surplus or net deficit on the working account of the various public enterprises and of the publicly-owned properties is shown in the current account of the budget, always on the receipt side. In case of a deficit a minus figure reducing the total of state receipts is indicated. The Danish have adopted the system of dividing the budget into two main parts: normal current receipts and current expenditures (working account) and capital receipts and capital expenditures (movements of capital).³

In the latter category are included expenditures for certain equipment purchases, public works, loans made by the State, repayment of public debt, depreciation of State property, etc. This category, while included within the budget, is not considered in relation to the periodically measured balance which is concerned only with the working account (Sections 1-25) of the budget. It would hardly be correct to compare the balanced relationship outlined in the working account sections with that of ordinary or more strictly unified systems elsewhere, because of the fact that some tax revenues are also allocated to the capital or extraordinary category. If the capital outlay budgets are not financed by borrowed funds, their relation to the general budget may be subject to reinterpretation.

A problem arises in Denmark in connection with the fact that the inheritance taxes are not included as current revenues but as

³ A clear and consistent distinction is maintained between current and capital revenues and expenditures presented in two accounts, the current account and the capital account. All the ordinary expenditures of government, apart from capital movements, appear in the current account which shows on the revenue side the proceeds of all taxes and the interest received on capital invested. The capital account shows strictly capital movements. The proceeds of the sale of property and any decrease in stocks or working capital are shown as revenue, while capital investment and repayment of debt appear as expenditure. No debt redemption is entered in the current account. Dalton, *op. cit.*, p. 330.

capital receipts. This is not a haphazard segregation but conforms to an assumed economic relationship between inheritance and capital levies and public debts and signifies governmental concern with the maintenance of national capital. Several special crises taxes are also shown under capital receipts.

A somewhat novel method of treating debt operations has become a feature of the Danish system. The capital account does not balance periodically. The magnitude of the account in each period does not indicate any relation to the deficit. A balancing of the extraordinary budget over a period of years, according to a planned program, gives the first indication of a failure of revenues and expenditures to become coordinated in the scheduled manner.

The Danish practices, like those in the other Scandinavian countries, are potentially dangerous. They would undoubtedly lead to unfortunate results in countries with lower standards of fiscal morality. The Danish system, however, has been remarkably well administered. It has not been a source of any of the evils and abuses associated with special budget categories. Dalton considers it the finest seen in any national government.

In Italy there exists a complicated system of multiple budgets. The so-called autonomous budgets carry the accounts of the forest, highways, mint, post, telegraph and telephone, and railway services. Deficits and surpluses for five of these autonomous budgets are transferred to the Finance Ministry's budget. The sixth budget, the previously mentioned highway account (*Azienda-Autonomo della Strada*), is independent and is only irregularly linked to the general financial scheme. Similar to the practice found in France in connection with the post, telegraph and telephone services, deficits of the autonomous accounts are occasionally carried directly to the extra-budgetary treasury accounts. There are, furthermore, a number of special budgets which are independent but which are usually self-balancing. The funds which they receive are the proceeds of revenues carried in the Ministry of Finance budget. The special budgets include activities such as the minor services which do not directly fit into the scope of the Ministry to which they are attached. An example is found in connection with the guards of the Ministry of Finance, for whom a special budget category is maintained. With the exception of the highway account, the annexed budgets receive recognition on the measurement of the balance. It must be kept in mind that these elements of the fiscal system are extra-budgetary in character. These are also the means through which large capital outlays have been made.

For those public debt operations which are budgeted, a sub-heading for loans is included in the extraordinary category of the budget of the Finance Ministry. In attempting to link debt operations to the prospective deficit, it is essential to recognize that a wide scope for national public debt operations exists outside of the budget. The Treasury accounts have already been alluded to in connection with the autonomous Highway Budget. In some respects similar to the federal corporate instrumentalities in the

United States, there exist a number of semi-public credit institutions for financing various construction, insurance and other activities and for pledging the public credit through a system of guarantees. It is impossible to determine the true status of the government's credit activities without taking these credit institutes into account. They finance their activities with bonds guaranteed by governmental credit and carry out numerous other operations which permit no simplified interpretations regarding financial accomplishments during a particular period.

It is strange to find that Belgium has not followed the French in the adoption of annexed budgets and in the desire to avoid a loan-expenditure segregation within the budget. Methods in Belgium resemble more closely those found in Germany prior to 1931 or in Canada at present. All items which are planned to result in the creation of debts, regardless of their character, are segregated in the so-called extraordinary budgets. The latter comprise the accounts of investment and capital expenditures. All items not financed by loans are found in subheadings of the general budget. The basis for the budgetary segregation is the loan expenditure character of the outlay. There is, therefore, a separation of the elements according to the financing media. It is easy to trace deficits, but their allocation to specific activities may be difficult.

Hungary's system provides for annexed budgets for special funds and also for the classification of items into ordinary and extraordinary categories. The method facilitates segregation of all transitional and capital items in the latter category. The basis for the classification as well as some of the intra-category relations has been described as follows:

The general budget is divided into two main parts: (a) the State administration, showing the gross receipts and gross expenditure of the administration proper and of the State monopolies, and (b) public undertakings, showing the gross receipts and gross expenditure of public domains and public undertakings. The receipts and expenditures of the general budget are divided into ordinary and extraordinary. Extraordinary receipts consist of proceeds of loans and other exceptional receipts; extraordinary expenditure is again divided into two parts: transitory expenditure, representing expenditure of a temporary character, and investments (expenditure for new constructions).

Receipts of the State administration include contributions by the public undertakings to debt service, which is charged to the working expenses of these undertakings. Certain items of debt service included in the working expenses of public undertakings are affected directly, however, and do not pass through the receipts and expenditure of the first part of the general budget—the State administration.⁴

⁴ L. of N., Pub. Fin. Hungary 1928-35, p. 2.

There has been no indication of allocations which are subject to criticism. Barring these shifts which are fostered by a system such as is outlined above, there should be no difficulty in recognizing debts incurred for general deficits and those linked to capital investment activities.

In The Netherlands the segregation of various special items is carried out by means of funds linked to the general budget. The League of Nations experts have summarized the system of accounts in a manner which reveals the budgetary status of the agencies involved.

The general budget comprises the gross expenditure of the administration proper. For public undertakings the general budget comprises, under receipts, the interest on capital invested, contributions to pensions, not profits of their working budget, contribution for depreciation in the value of stocks and capital, and, under expenditure, the grants for capital expenditure and cover for deficits.

Receipts and expenditures on the general budget are divided into ordinary and capital receipts and expenditure. Capital receipts represent the contributions from public undertakings for depreciation of stocks and capital, coinage receipts, extraordinary repayment of advances granted by the State contributions from provinces and communes for constructions, etc.; and capital expenditure represents expenditure on construction, capital outlay for public undertakings and special funds and advances granted by the State. Amortization (allocations to sinking funds) is included in ordinary expenditure; repayment of loans en bloc or increased repayment is included in capital expenditure.⁵

The various public undertakings, including the postal, telephone and telegraph services, and the printing, savings banks, and other activities, are treated as special categories. The special Funds include the General Pensions, Transport, Zuiderzee, Communal, Coast Defense, Fortification, and Agricultural Crisis Funds. In addition to those for roads and bridges, the Transport Fund includes the most important commercial enterprise of the State.

The Dutch method is highly desirable, since it allows for the existence of funds but does not grant them a type of budgetary status which is potentially dangerous or likely to lead to uncontrolled borrowing. In view of the high standard of efficiency in governmental finances, it is questionable whether there have been unwarranted shifts between the various categories. To aid in the recognition of true deficits, every ten years a special act is passed which confirms the balancing of increases in the public debt with the budget accounts.

⁵ L. of N., P. Fin., Netherlands, 1928-35, p. 2.

Greece, Rumania, and Turkey are the countries whose practices are yet to be surveyed. In the first mentioned jurisdiction the budget of the special government organizations are separately accounted for and are carried in annexes to the general budget. It has already been indicated that the most important item of a commercial nature, namely the State railways, has achieved an extra-budgetary status.

Greece is among those nations which segregate public debt operations in the projected budget program. A sub-heading for "Capital Movements" comprehends all proposed increases in the public debt. There is no assurance that segregated expenditures are only those for public works and other capital purposes. Ordinary expenditures can also be included. As a result only a portion of the debt receipts which are included in the totals used for arriving at a projected balance can be used to measure the prospective deficit.

In Rumania the accounts of the various autonomous funds and public business enterprises are maintained in annexed budgets. The link to the general budget is maintained by a transfer of surpluses and deficits.⁶

Prior to 1932 the practice was to include public loan operations as ordinary receipts credited to the Ministry of Finance. A series of fiscal crises necessitated the departure from this method. Debts created for the financing of unplanned deficits were segregated annually in special accounts created for that purpose. Special expenditure categories were created for the non-recurring proceeds of particular loans such as the Stabilization Loan of 1929, the Development Loan of 1931, and the Endowment Loan of 1934. These extraordinary budgets were created in order to accomplish special amortization provisions for the new debt. These special budgets and the main extraordinary budget, noted below,⁷

⁶ Up to the end of 1929, the general budget contained the gross receipts and gross expenditures of the Administration proper, of State monopolies, the public domain and State undertakings, with the exception of State railways and postal, telegraph and telephone services, which have separate budgets, only a contribution to the State railways and the net surplus of the postal, telegraph and telephone services being included in the general budget. As from 1930, the State monopolies and the other public domain and undertakings (forests, fisheries, farms, mines, petroleum pipe-lines, health resorts, harbors and waterways, printing-office, etc.) have separate budgets of their own and only their net surpluses or deficits are included in the general budget. The net results of State monopolies and public undertakings represent the balances between the working receipts on the one hand and working expenses and capital on the other.

Among special funds the most important is the Pensions Fund, which receives contributions from the general budget, and the Railway Employees' Assistance Fund. As from 1930, various other special funds were created, the most important being the Road Fund, Penitentiaries Fund, Physical Training Fund, etc. They also receive contributions from the general budget, and the Road Fund has, in addition, receipts of its own derived from various taxes on petrol, etc. — In November 1934 the National Defense Equipment Fund was created. L. of N., Pub. Fin., Rumania, 1928-35. pp. 3-4.

⁷ See Chapter XIII.

render ineffective any attempts to trace periodic deficits or public debt developments by considering the general budget accounts. The situation is very similar to that found in other countries where the unity of the system is meaningless as an aid in discovering any balanced relationship between income and outlays. Impaired budgetary comprehensiveness centering on loan expenditures is the most forceful nullification of the system's balance.

Finally in Turkey, the semi-autonomous governmental bodies and business enterprises are separately accounted for in annexed budgets. These include the accounts for the railways, educational institutions, post office, telegraph and telephone, munitions and other monopolies, aviation, and maritime communications. A close link to the general budget is maintained, and all revenue and expenditure items are included in the total for the anticipated balance. The treatment of public debts is equally free of any confusing practices. Estimates of the proceeds of proposed increases in the public debt are included in the budget revenue estimates. The receipts are treated as ordinary revenues and are included in the totals used for arriving at the balance. Unofficially, only some portions of the public debt are used to measure the prospective deficit. However, there is no segregation of loan-expenditures for capital purposes which might minimize the deficit.

Summary ✓

(The relatively small group of nations whose practices with regard to normal budgetary unity and loan-expenditure segregation have been surveyed offer varying methods and experiences. There are, however, very few examples of nations in which the annexed budgets are adequately linked to the general budget, in which loan expenditures are consistently segregated, and in which the system is operated in a manner which readily permits a determination of the status of the budget.)

(Great Britain appears again to rank foremost in the ability to have budgetary practices conform to theoretical ideals. Barring a few post-war experiments, all the independently financed (self-balancing) activities are carried in annexed budgets, while surpluses and deficits are periodically shown in the general budget accounts. ²All debts are linked to the general budget rather than to any of the individual funds financing the separated activities. Furthermore, no efforts are made to segregate capital outlays or loan expenditures, according to any arbitrary criteria.) The growth of the public debt is clearly a function of the balance between the income and expenditures shown in the general budget. When financing media are discussed, their effects are related to the fiscal program as a whole. Only India and the Irish Free State among the Empire group follow the lead of Great Britain in maintaining at a high level the unity of their budgetary systems. Australia, Canada, and New Zealand have not substantially impaired the unified scope of their budget programs, but they have segregated certain types of expenditures which are claimed to be at all times

legitimately financed by loan operations.) (Such a segregation does not indicate that the unity of the system has been destroyed by irregular or improper links between the isolated accounts and the general budget summaries or that borrowing is not centralized.) There is, however, some indication that a fiscal policy which at first merely intended to point out when debts or tax revenues were to be used for the financing of certain outlays has at times been defeated. (The systems appear to lend themselves to arbitrary allocations and to occasional unwarranted shiftings.) The fact that these three members of the Empire group have favored planned deficits during recent periods minimizes the actual influences which the budgetary methods may have had on the public finances. (In general, it is doubtful whether the standards with respect to budgetary unity which are set by the various nations in the British group are excelled by many other jurisdictions.)

(The system of the federal government of the United States deserves a high ranking even if it cannot be given a completely clean bill of health.) (The finances of only one regular governmental service, two special agencies, and the District of Columbia are carried in annexed budgets. The links to the general budgets are adequate, although the clarified position of the British self-balancing categories' surpluses and deficits in the general budget is not equalled.) There appears, furthermore, to be a cessation of the practice of setting up agencies to extend credit based on the government's guarantees. While a large contingent debt still exists, it can be stated that now all borrowing is centralized in the Treasury and that the public debt's relation to the balance of the budgeted income and outlay is clarified. Any segregations or classifications which take place are for informational or administrative purposes alone.) The deficits or surpluses revealed in the general accounts or by the movements of the public debt are not obscured by any efforts to translate potential assets into debt offsets. (If one considers the administrative practices prior to the depression and those which are in force now or are being planned, the federal experience may indicate a weak but growing tradition of budgetary unity.)

(Of the other leading nations, the practices of France, Germany, and of Sweden offer distinctive types.) In the first two mentioned countries some efforts towards endowing the systems with unity can be noted.) In France the annexed budgets are expected to be linked to the general budget and provision is made for all the debts.) In Germany a highly complex scheme of categories within the scope of the general budget *Plan* and the segregation of loan expenditures into a special budget account appears to have been devised to prevent a disintegration of the system. In both jurisdictions, however, the budgetary unity has been impaired by various legalized exceptions and in France by extra-legal avenues for evasion and avoidance. The French are able to pile up governmental debts outside the limits of their budgeted finances, while in the latter years of the German Republic

a number of ingenious schemes impairing the balancing status implied in the system's unity can also be noted. The budget programs as well as the procedures and accounts linked to them failed to reflect the true character of the fiscal policies which were pursued. They failed also to result in traditional or legal standards which might have discouraged such a result as the creation of secret governmental debts.

The Swedish system appears to be more realistically related to the fiscal policies which have been adopted. Although there has been no vain effort to follow Great Britain or the United States in establishing a unified system, there has been a uniform policy with respect to the creation of annexed budgets for public undertakings and for the activities carried in special funds. The links to the general budget are consistently maintained. ^b The introduction of a loan-expenditure category has clarified all governmental borrowing in relation to the budget. The Swedish have been somewhat liberal in their interpretation of productive capital outlays, but they have apparently been guided by fiscal and economic beliefs rather than by any efforts to minimize the deficits in the current expenditure and revenue category through concealment or false classification.) (Denmark and Norway, completing the Scandinavian group, follow the general scheme which can be observed in Sweden. These nations, as do those comprising the British Empire, deserve praise for their generally enlightened attitude with regard to their budget systems. These reflect, and are capable instruments for the achievement of, desirable fiscal policies.) Of the few remaining jurisdictions, Belgium, Greece, Hungary, The Netherlands, and Turkey appear to have avoided any undue breakdown of the unity of their budget systems. By linking together special activities through annexed budgets and by endeavoring to segregate loan-expenditures, they have tried to prevent the steps they have taken from unduly complicating their concepts of budgetary unity.

Italy and Rumania have, on the other hand, gone so far in the direction of operating outside the scope of their nominally unified systems that nothing would be gained by ascertaining the extent of the influence exercised by the budgeted activities on the ultimate fiscal accomplishments and on the volume of the public debt. At the present time, Italy, Germany, and Soviet Russia are deliberately following unorthodox fiscal policies. However, they have institutional backgrounds which require an approach towards an analysis of their finances and the unity of their budget systems which must differ from that employed for other nations. The economic and fiscal policies of these totalitarian states, as well as their political structures, imply that the significance of budgetary unity must be reinterpreted. It was noted in a previous chapter that the budgetary comprehensiveness of the German and Italian systems was similarly subject to influences found only in totalitarian states.

✓ Conclusions Applicable to the American States

As has already been mentioned, (the fiscal systems of the American states do not present examples of all the types of multiple budgets noted in the national jurisdictions. (The limitation of commercial and industrial enterprises) is sufficiently widespread to permit no discussion of this reason for multiple budgets. It is certain also that (the extent of the states' recourse to debts as financing media does not encourage the creation of loan expenditure categories.) (The states have, however, made some limited use of capital budgets or of accounts in which public works have been segregated.) A further development of such budgetary accounts, as a basis for planning and fact-finding, has been often recommended. Capital budgets have been proposed particularly as aids in the proper timing of public works for attaining economic stabilization and in planning long-range programs.^a (Where resort has been made to borrowing, the authorizations are limited to stated purposes. As a result there is little opportunity for questionable allocations of expenditures to the capital budgets.) Further, the absence of abuses in connection with the capital accounts can be traced to the sparing use of loan proceeds as a means of financing construction activities. The application of automotive tax yields for highway building tends to assure the restricted use of debts. (In general, capital budgets are not likely at present to become objectionable loan expenditure accounts.)

The few states which have managed to borrow for the purpose of financing general expenditures, such as Tennessee, have done so only after tax revenues have been erroneously estimated and have failed of realization. It will be shown below that (deficit planning is almost universally prohibited) (It appears, therefore, that the present policy of the states need cause no apprehension. Their error is rarely that of having abused borrowing privileges during crises.)

(Assuming that borrowing will be restored to a legitimate and desired rôle in the finances of the American states, the question arises whether those charged with state budgetary policies should attempt to prepare completely unified fiscal programs. There is ample evidence in the experience of the national governments to indicate that this policy would not be advisable for the states.) (Such action would surely encourage the creation of extra-budgetary accounts.) State executives, in charge of budget preparation, would continue to consider only the elements of their public finances linked to tax revenues when measuring prospective and accomplished fiscal equilibrium. The belief that productive loan-expenditures need not to be budgeted would not encourage the states to follow the example set by a few nations in linking any growth in public debts to deficits. It is questionable that there would be any popular support, assuming debts were tolerated, even for plans to link all revenues and all outlays in a unified financial picture.

^a See "Public Works Planning," *op. cit.*, p. 13.

The other methods which the states might adopt are equally not without hazards if one assumes current standards of efficiency in state budgetary practices. (The so-called self-balancing categories have a way of eventually bringing unexpected and unwelcome deficits to light.) The segregated accounts are seldom kept free of items for which they were not intended. Very high levels of sincerity are necessary to prevent lax executives and legislators from abusing the relatively easy financing methods available. Within such limits as are practical (the states should strive to avoid methods which invite disordered finances. Most attempts at segregating debt operations appear to be in this class)

CHAPTER XIII

EXTRAORDINARY AND CRISIS BUDGETS

The Problem of Extraordinary Budgets

In the preceding chapters, an effort was made to postpone the discussion of the various changes in the budgetary system's unity which are motivated by reactions to crises and emergencies. In other words, the practices already noted were as a rule not adopted with a belief that they were permanent. Some of the methods and devices, however, were precisely of this character.

In allocating various practices to the extraordinary budget category only arbitrary criteria have been employed. It will also become evident that the distinction between extra-budgetary items and those of a so-called extraordinary character is not always clear. There has been no uniformity in nomenclature or in fiscal and economic backgrounds, and above all, no uniformity in budgetary and fiscal policy to enable the consistent separation of the subjects.)

(The various jurisdictions have often employed the terms "extraordinary," "emergency," "double," and other labels for special budgets to describe similar or different practices. The term "extraordinary" has frequently been used to indicate the segregation of all capital outlays or loan-expenditures, and has lost its meaning of special account covering a fiscal policy designed to meet some particular crisis of great magnitude or of a non-recurring character. Because of the unsavory reputation which has been accorded extraordinary budgets, those responsible for their introduction have not failed to employ labels designed to instill confidence and to avoid criticism.) To have their policies referred to as extraordinary budgeting is precisely what they seek to avoid.

(With respect to economic and financial backgrounds, only the fact that extraordinary budgets are usually linked to vast expenditure programs not financed by general fund revenues can be taken as a common factor. Wars,² post-war reconstruction and reparations activities, inflation, public works, and related recovery and relief programs are some of the factors which have given rise to expenditures financed through extraordinary budgets.)

(Many jurisdictions have made the gigantic outlays associated with these special budgetary accounts but have carried them within the framework of their normal budgetary systems.) (Hence, it is impossible to determine the probability of resort to extraordinary budgets simply by the existence of certain problems with which the public finances have had to contend.)

The choice of criteria based on fiscal and budgetary policies, however, is of some assistance in identifying the budgets to be dis-

cussed in this chapter. (Whenever reference to extraordinary budgets is noted, usually a vast expenditure program has been undertaken.) The failure to finance extraordinary outlays through ordinary tax revenues or through normal debt operations is an equally definitive criterion. Borrowing in one form or another usually is present, even though some other means of covering the outlays may be ultimately adopted. Financing by means of a realization of assets, special forms of taxation (i.e., a capital levy), forced loans, or some other exceptional financing media may also be found.)

The basis chosen for discussing segregation practices in this chapter rather than in the chapter in which normal multiple budgets are noted, requires that particular emphasis be placed on the factors surrounding the initiation of the special budgets. Actual or proposed plans for impairing budgetary unity to the extent of permitting large expenditures to be made outside the framework of the regular budget and for setting up a dual approach to the problem of measuring budgetary balance will be stressed.

↳ Extraordinary Budgets and Budgetary Unity

There are reasons for desiring to segregate extraordinary budgets from the many other types which may form elements in multiple budget systems.

(There is a widespread tendency to consider the setting up of such budgets as associated with disordered, dangerous, and loosely controlled finances. The unfortunate fiscal experiences of many governments in which unorthodox methods have been followed by unfunded deficits, inflations, and other economic, financial and monetary catastrophes have served to single out the extraordinary budgets as undesirable.)

A potent source of political criticism is offered to an opposition party when it can raise the cry of "extraordinary" and "double" budgeting. So profound is the belief that unwarranted manipulations and abuses are associated with extraordinary budgets that there are many instances of specific legal injunctions against their introduction. The fear of inflation, especially among the countries poor in capital resources, has caused several governments to establish measures to prevent the use of extraordinary budgets.)

(Extraordinary budgets appear to involve unsound budgetary practices and are singled out for illustration in connection with the actual or potential opportunities for abuse.) It is not necessary that they be created in order to administer any kind of fiscal policy which can be defended. Extraordinary budgets invite misinterpretations of desired fiscal policies and lessen all the advantages gained by unified adherence to the established procedural stages of budgeting.

As has already been emphasized, it is not the function of the budgetary systems of national jurisdictions to prevent deficits. It is rather that the systems serve to make deficits known so that

desired policies with respect to them can be pursued. The abuses which are made possible through the setting up of extraordinary budgets defeat these functions of financial administration.)

(Extraordinary budgets accomplish this result by creating illusions regarding deficits. They encourage false interpretations of current fiscal accomplishments by allowing financial administrators the opportunities to make changes in budget classification. They lessen the effectiveness of financial planning and control by means of the special immunities usually enjoyed by items segregated in extraordinary budget accounts. They offer few legitimate advantages, if any, which cannot be achieved through practices traditionally more acceptable. The theoretical criticisms of extraordinary budgets are not dissimilar to those applied to extra-budgetary accounts, to which they are closely related.)

Extraordinary Budgets in National Finances

(Of the nations which have been studied, those in the British Empire, Denmark, The Netherlands, and Sweden may be included among those which have not recently created extraordinary budgets.¹)

Greece, Hungary, Italy, Turkey, and the U. S. S. R. can be listed with this group only with some qualification. (The inclusion of the United States and of Germany, even if the events of the past few years are ignored, is equally subject to question. At one time or another in the past, extraordinary budgets may have existed in some of these countries. Few are beyond justifiable doubt regarding their complete avoidance of this category of multiple budgets.

There are two nations, (France and Rumania), which definitely cannot be identified with this group, and there is some evidence that Austria and Poland also (have experimented with extraordinary budgets)

France

(In France a number of budgets have been created which definitely can be cited for their extraordinary character. These are in addition to the so-called *Budgets Annexes* which are linked to the general budget. (Excluded also are the extra-budgetary categories which are completely outside the system and which are not recognized in connection with the periodic measurement of income and outlays.)

Before turning to the present status, brief mention will be made of (the French tradition in extraordinary budgets. Students of the problem can go back to the French Revolution for the earliest traces of the practice. Each extraordinary budget has left some fiscal distress in its wake.) During the World War the

¹ There is some indication that Czechoslovakia and Switzerland, among the European nations whose practices have not been comprehensively surveyed, may be included in the group of countries which have refrained from establishing extraordinary budgets.

budgetary system collapsed completely,² and it seems unwise to attempt to even recognize anything as formal as an extraordinary budget during that period. The budget of Finance Minister Marsal, voted on July 31, 1920, introduced the first (post-war extraordinary budget. This was to be a budget financed out of "exceptional" receipts of a temporary nature, including loans when necessary.³) This budget in which the capital outlays for post-war reconstruction were to be segregated should not be confused with the notorious "Budget of Recoverable Expenditures" which Minister Marsal's immediate predecessor, Klotz, had proposed and which was almost simultaneously adopted. (This extra-budgetary reparations account, together with the extraordinary budget, give the French financial administrators ample opportunity to open the flood gates for loan-expenditures.) One hardly need be reminded that they did. (It may be recalled that the extraordinary budget was not used solely, as originally intended, for capital outlay expenditures.) Any attempt to justify the borrowing it encouraged, as based on permanent assets or productivity, and, equally, any attempt to view the French deficits between 1920 and 1925 solely in terms of the ordinary budget would be utterly misleading.

(These post-war extraordinary budgets represented the most objectionable multiple budget type. An indication of their contribution to the disordered finances of post-war France can be seen in the efforts to remove them at the time when the public finances were reformed in conjunction with the stabilization of the franc. The budget for 1926 returned to a relatively unified form, and no segregation of extraordinary outlays was adopted.⁴

As elsewhere, (the segregation of expenditures to be financed by unrealized assets into a separate category became associated in the public mind with inflationary excesses.) Even a distinction between ordinary and extraordinary expenditures which was maintained in the regular budget was abolished in 1928.⁵ France did not have any fiscal leaders who dared to reintroduce this device directly in the crisis years although the effects of the world wide depression, coupled with purely domestic problems, necessitated many budgetary maneuvers and readjustments. It is not improbable, however, that the (account for public works) carried in the so-called *Compte Special du Perfectionnement de l'Outillage National* which was (introduced in 1929 may be considered to constitute an extraordinary budget.⁶) The French have allowed the segregation in this fund of capital outlays designed to combat unemployment. This gives it the true character of an extraordinary budget. At the time of its adoption, it was designed merely to act as a capital budget for planning public works, and there was no intention of financing it through borrowing. (The depression and the financial and economic difficulties naturally created

² Jèze-Neumark, *op. cit.*, p. 259.

³ Haig, *op. cit.*, p. 71.

⁴ Jèze-Neumark, *op. cit.*, p. 263.

⁵ Dalton, *op. cit.*, p. 274.

⁶ Allix, *op. cit.*, p. 104.

an opportunity to turn this account into a loan-expenditure category.) The deficits were readily linked to it. There is indication that, at a later date in the depression, the French again created special budget categories designed to complicate the presentation of a balanced relationship between income and outlay.⁷

The problem is still a pressing one. Finance Minister Auriol of the first Popular Front government again proposed a dual budget system including a segregation of exceptional expenditures for the 1937 fiscal program. A balanced ordinary budget, as is usually the case in this use of a multiple budget device to minimize deficits, featured the program. According to press reports:

. . . the ordinary budget will amount to 48,000,000,000 francs, while the extra expenditures to be financed separately will require the raising of some 26,000,000,000. Among these exceptional expenditures will be listed the army motorization and aviation reorganization programs, railway deficits and special public works plans.

The armament expenses will be met by a special loan, and other expenses will be covered by reimbursing the treasury for the loans that were issued through the medium of the national sinking fund at the time of the rente conversion.⁸

The day following the proposal to the Finance Commission in the Chamber of Deputies, the press and opposition parties had already charged that the Minister of Finance put into his secondary budget items which belonged in the tax-financed ordinary budget.⁹ Apparently France's reputation as a source for study in the uses and problems of extraordinary budgets is not undeserved.)

Rumania

In Rumania, possibly due to French influence, an extraordinary budget is found. (The deficits of current and past years are carried in the extraordinary loan budgets.) (The link between these and the extraordinary budget, the annexed budgets, and the regular budgets is neither stable nor clarified. Items segregated in the extraordinary expenditure category include the payment of state liabilities, public death redemption, payment of war damages, etc. There is, no doubt, a justification for some special recognition of elements of this type. However, the constant shifting back and forth of items between the various budgets makes it impossible for any constant basis for the segregation to be assumed. The efforts of the League of Nations fiscal experts to trace fiscal accomplishments necessitated their clarifying the various budgets and their accounts. The conclusions are of interest:

In 1930 and 1931, and again since 1933-34, receipts and expenditure on the general budget are divided into ordinary

⁷ N. Y. Times, Nov. 15, 1932.

⁸ *Ibid.*, Oct. 28, 1936.

⁹ *Ibid.*, Oct. 29, 1936.

and extraordinary. Extraordinary receipts represent fines, liquidation of special funds, sale of State property, concession rights, etc. Extraordinary expenditure mainly represents expenditures on construction and new works.

In addition to the general budget, an extraordinary budget was instituted as from 1932. In 1932 the general budget (ordinary budget) only showed ordinary receipts and expenditure, while the extraordinary budget showed arrears of receipts and expenditure from previous years and extraordinary receipts (including certain new taxes) and extraordinary expenditure. The 1933-34 extraordinary budget only contained arrears of receipts and expenditure, the receipts from new taxes and other extraordinary receipts and extraordinary expenditure being included in the general budget. The extraordinary budget for 1934-35 contained arrears of receipts and expenditure, but also some extraordinary expenditure (especially on national defense) and certain contractual engagements. For 1935-36 the extraordinary budget contains arrears of receipts and proceeds of loans (8,000 million lei), arrears of expenditure and a contribution of 700 million lei to the general budget.

The constant shifting between receipts and expenditure of general and extraordinary budgets or special accounts, the changes from gross to net budgeting and the changes in the period during which operations were registered in the accounts of a given year make the figures of the various years not comparable.¹⁰

The results of these practices have not been as disastrous as might be expected because of the already noted limitation of borrowing potentialities. (Rumania is unique in that it has included receipts mostly from sources other than debt emissions in its extraordinary budget. Nevertheless, the best fiscal and economic interests are not served by these manipulations.)

Germany

(The United States and Germany represent two nations in which significant reactions of economic crises on fiscal affairs and on the budgetary procedures are noted. In both of these countries interventionistic policies, increasing the magnitude of the public finances, have similarly led to the use of modified budgetary practices.) Their different policies with respect to emergency and extraordinary budgets are interesting to observe.

(Republican Germany's system provided for a classification of expenditures within each *Einzelplan* subdivision into ordinary and extraordinary items.) This method, no doubt, has been introduced to avoid the necessity for any multiple budget. Each one of the twenty subdivisions of the budget thereby had an extraordinary category.

¹⁰ L. of N., Pub., Fin., Rumania, 1928-1935, pp. 3-4.

The *Einzelpläne* included those for the public debts and offered opportunities for covering the items most likely to be considered for an extraordinary account. These were viewed together by the Germans and led to the assumption that an extraordinary loan-financed budget was maintained. Until the collapse of the Republic, an extraordinary budget in the sense of the ones linked to French fiscal history did not actually exist.

The plan outlined in the basic legislation was not followed throughout the post-inflation period. A colorful experience with extraordinary budgets can be noted in the past when economic conditions encouraged loan-expenditures. Until 1927 war cost burdens were carried in a separate budget, and all the efforts towards balance were exerted only with respect to the regular budget considered independently from the war category. Only after 1927 was it incorporated into the regular budget, appearing as Number XX of the *Gesamt Plan*.¹¹

Dalton reports that the Agent General for Reparations found a confused allocation of items to the ordinary and extraordinary categories of the unified budget and the war charges budget. In the Agent General's report of June, 1927 (issued prior to the abolition of the War Charges Budget), his view on the status of Germany's multiple budget system was expressed as follows:

The budgets are presented in a manner that makes it quite impossible, even for well-informed readers, to follow them without exhaustive study and analysis. The budget as a whole contains many transfers from one budget to another, and from one year to another; all of which tend to create confusion and to complicate the accounting.¹²

This sounds like the usual criticism of extraordinary budgets, except that the creation of debts has not been deplored. The war burdens, as an expenditure element, created a problem peculiar to Germany alone. The history of the extraordinary budget category, however, is one which elucidates problems likely to be encountered in any major jurisdiction coping with economic crises and with heavy and varied fiscal burdens.

Article 87 of the Weimar Constitution, in addition to specifying the permissible use of credit to finance extraordinary needs, provided that the latter must represent "productive" purposes. The Germans did not attempt to interpret the injunction regarding productivity in a rigid sense, and hence, each Minister of Finance was at liberty to shift items back and forth between the ordinary and extraordinary category. This influenced the amount of revenue required to balance the ordinary budget. The criteria which were employed are not clear. Size appears to have been a factor, since items of large magnitude invariably found their way into the extraordinary category of the particular *Einzelplan* to which they were associated while small items were retained in the ordinary classification. Periodicity does not appear to have been a criterion

¹¹ Neumark, *op. cit.*, p. 39.

¹² Dalton, *op. cit.*, p. 23.

since non-recurring items were retained in the ordinary budgets. The bulk of the items involved the acquisition of earning or realizable assets, and one is inclined to recognize the extraordinary budgets as similar to the capital account, likewise labeled extraordinary, of the Canadian system. The dual budget classification was abolished in 1932 because of the inability of the Reich to float loans successfully. A lengthy but highly interesting quotation from Professor Dalton's survey of depression finances describes some of the features of Germany's experience with its extraordinary categories.

Article 87 of the Reich Constitution declares that expenditure is to be defrayed out of loans only, if it is "extraordinary" in character, and serves a "productive" object. The commentary (Schultze and Wagner, *Reichshaushaltsordnung*) on the Budget Law explains that "exceptional expenditures for a productive purpose" embraces in particular the acquisition of new or extension of existing industrial concerns or the acquisition of shares in a commercial undertaking of a "productive" character. But the description does not apply to measures which are calculated merely to maintain existing property, e. g., the replacing of an old house by a new one. It is admitted, however, that if the new house is substantially bigger than the old, this is equivalent to an extension of an undertaking. There must be a considerable measure of doubt regarding such a distinction. The principles governing this aspect of the budget are thoroughly tainted with "the fallacy of misplaced concreteness"!

Credit for "unproductive" purposes may be rendered necessary by such contingencies as war, national crisis, or grave financial stringency. If the revenue of the Ordinary Budget falls short of the outgoings, then a transfer may be made from the Extraordinary Budget in order to effect equilibrium in the former. A repetition of this procedure might, of course, have dangerous consequences.

Since it is a basic principle of the Budget Law that expenditure on productive or capital development should not be financed out of current revenue, it follows naturally that such items should appear in the Extraordinary Budget and be financed out of loans. But practice may often show a deviation from this rule. For instance, it has happened in post-stabilization years that the Reich has had to cover expenditure in the Extraordinary Budget by drawing on surpluses in the Ordinary Budget—at times when the loan market was unfavorable. In the opinion of Mr. Parker Gilbert, the "underlying fault" of the above principle is that "when applied to the Government's budget, it so easily often leads to new and unnecessary expenditures that themselves would never be incurred if they had to pass the scrutiny of the Ordinary Budget." The fact that items of expenditure which really belong to the Ordinary Budget, but for which

there is no cover, are often put in the Extraordinary Budget, has led some authorities to the conclusion that this Budget should be abolished. The official view is that the evils of such a procedure would outweigh the disadvantage of the existing arrangement. It is argued that "Extraordinary" items of expenditure do not remain at a more or less constant level from year to year, but show large fluctuations. The incorporation of such items, liable to fits and starts, in a unified Reich Budget would, according to official opinion, introduce a disturbing element and might make necessary large and variable increases in taxation from time to time. To quote the official review which accompanied the 1930 Budget estimates, "the disadvantages of abolishing the Extraordinary Budget outweigh the advantages of a unified budget, given the condition that in practice only productive (or capital) expenditures are put into the Extraordinary account and that, in assessing the volume of extraordinary expenditure, proper regard should be had to the ability of the capital market to supply loans."¹³

A country such as republican Germany, which was undergoing basic changes in the structure of its economy and in the rôle which its public finances played in the economy, cannot be measured by the same concepts applied to other economies. It would require a deeper analysis of Germany's finances to pass judgment on the problem of using the extraordinary items as an indication of a deficit in the national finances, or whether the German governments would have refrained from making capital outlays as long as the flotation of loans was successful. Viewing the multiple budget arrangements, anticipating the several specific expenditure-tax revenue links discussed below, it is evident that even under the Republic the unity of the system was substantially impaired. (In present-day Germany the weakened comprehensiveness and unity of the budget system, and the colossal borrowing programs tend to reduce to an absurdity any question of defining ordinary or extraordinary budgets. The entire financial system operates on what may be referred to as either an extraordinary or extra-budgetary-plane.)

United States Federal Government

(In the federal government an interesting test of budgetary unity is found in connection with the emergency and recovery expenditures made by the Roosevelt Administration in fighting the crisis.) Following the publication of the Daily Treasury Statement on July 1, 1933, a plan of segregating emergency items was noted. (In view of the fact that this category could be considered as entirely loan financed.) and in view of the fact that the National Economy Act of 1933 and long standing civil service and other administrative restrictions were not made applicable to the agencies

¹³ Dalton, *op. cit.*, p. 25.

financed through the emergency category, (the accusation that an extraordinary budget was adopted was not unexpected.) (In less recent Treasury statements (prior to July 1, 1933), the federal expenditures were arranged under the headings of "General Fund," "Special Funds,"¹⁴ and "Trust Funds." Beginning July 1, 1933, the first two categories were combined as "General and Special Accounts," and broken down on a new basis as "General" and "Emergency.") The basis for the segregation has been described by the present writer as follows:

The regular departmental service expenditures are included as before under the "General" category. Previously they were given as a lump sum, the item "General" being merely a sub-heading under the expenditures from the general fund. The new Statement calls for a segregation of the outlay for national defense (Army and Navy), Veterans' Administration, the construction of public buildings by the Treasury, and river and harbor work. The other sub-headings for postal deficiency, public debt service, etc., appear as before. The reason for singling out four features of the departmental expenditures for individual recognition is found in the fact that these items have been split into both the "General" and "Emergency" categories and no totals would be available unless they were taken from the departmental sum and isolated. Another feature of the "General" group is the insertion of certain items of the "Emergency" program, namely the Agricultural Adjustment Administration (A. A. A.).

The new "Emergency" group is recruited from four sources. First, as we have seen above, some old service outlays have been partly taken over by the "Emergency" category. The portion which is still subject to the regular departmental procedure is kept in the "General" group, while that portion which appears in the new list, comes under the federal Emergency Administration of Public Works. Except for Veterans' Administration, these items all relate to construction. Second, a group of expenditures, including public highway construction and the Boulder Canyon Dam project are taken wholly from the old Statement "General Fund" group. Third, expenditures made by the quasipublic Reconstruction Finance Corporation (R. F. C., January 22, 1932,

¹⁴ The writer has discussed the introduction of the emergency budget in "The Emergency Budget of the Federal Government", *American Economic Review*, Vol. XXIV, No. 1, March, 1934, pp. 53-68.

¹⁵ "Special Fund" accounts refer to expenditures and receipts which have been required by statute to be related to each other. Expenditures thus accounted for may or may not be made under permanent appropriations. These accounts constitute an apparent exception to the principles of comprehensiveness and unity, but the exception is in reality only apparent since at all times appropriations and estimates for these accounts have been made in the Budget in exactly the same way as for the so-called "general fund accounts." The significance of these accounts is purely a bookkeeping one. The amounts involved are not large. (See, e. g. Annual Report of the Secretary of the Treasury, 1936, p. 313, for a description of these accounts.)

C. S. Art. 1, 47 Stat.) previously kept out of the accounts with the exception of \$500,000,000 for payment of proceeds of sale to the Treasury of the Corporation's capital stock) are now wholly included. Fourth, the recovery program contributes the bulk of the new category, as the expenditures called for by the main legislative enactments are all herein contained. The Federal Emergency Administration of Public Works, the Administration for Industrial Recovery (N. R. A.), the Agricultural Adjustment Administration, the Farm credit Administration and the Administration of Emergency Conservation Work are those that are most familiar.¹⁶

On July 1, 1935, the Administration again revised its method of presenting the accounts of the national finances. Beginning with the issue of July 1, 1935, the Daily Treasury Statement substituted a "Recovery and Relief" heading for the "Emergency" category. The various New Deal agencies were grouped under five heads: relief, public works, agricultural aid, aid to home owners, and miscellaneous. Commenting on the change, a leading newspaper stated:

This reclassification of costs does not, of course, help bring the budget any more closely into balance; but it does make the Treasury's report more readily understandable by placing expenditures on a functional basis, and for this reason is to be welcomed.¹⁷

The fact that some agencies were declared unconstitutional, others created, the nature of the functions of some changed, and still others taken into the regular scope of permanent governmental activities, led to numerous changes and reclassifications.

The following array shows the arrangement of items in a recent Treasury Statement.¹⁸ It will serve also to demonstrate the complexity of the federal outlays as well as the comprehensiveness, charity, and unity of its publicized accounts.

GENERAL AND SPECIAL ACCOUNTS

EXPENDITURES

General:

Departmental:

- Legislative establishment.
- Executive proper
- State Department.
- Treasury Department.
- War Department (nonmilitary).
- Department of Justice.
- Post Office Department.
- Department of the Interior:
 - Boulder Canyon project.
 - Other.

¹⁶ "The Emergency Budget of the Federal Government," *op. cit.*, pp. 54-55.

¹⁷ N. Y. Times, July 16, 1935.

¹⁸ Daily Statement of the United States Treasury, May 15, 1937. A similar classification is followed in the 1938 budget message.

- Department of Agriculture.
- Department of Commerce.
- Department of Labor.
- Shipping Board.
- United States Maritime Commission.
- Rural Electrification Administration.
- Independent offices and commissions.
- Unclassified items.
- Adjustment for disbursing officers' checks outstanding.
- Total departmental.
- Public buildings.
- Public highways.
- River and harbor work.
- Panama Canal.
- Postal deficiency.
- Railroad Retirement Act.
 - Administrative expenses.
 - Annuity payments.
 - Unclassified.
- Social Security Act:
 - Administrative expenses:
 - Social Security Board.
 - Department of Commerce.
 - Department of Labor
 - Grants to States:
 - Social Security Board.
 - Department of Labor.
 - Treasury Department.
 - Old-age reserve account
 - Unclassified.
- Retirement funds (United States share):
 - Civil-service retirement fund.
 - Foreign Service retirement fund.
 - Canal Zone retirement fund.
- District of Columbia (United States share).
- National defense:
 - Army.
 - Navy.
- Veterans' pensions and benefits:
 - Veterans' Administration.
 - Adjusted-service certificate fund.
- Agriculture Adjustment Administration.
- Agricultural Adjustment Administration (Act, August 24, 1935).
- Agricultural contract adjustments.
- Soil Conservation and Domestic Allotment Act.
- Emergency Conservation work.
- Farm Credit Administration:
 - Crop loans.
 - Other.
 - Unclassified.
- Tennessee Valley Authority.
- Debt charges:
 - Retirements:
 - Sinking fund.
 - Purchases and retirements from foreign repayments.
 - Received from foreign governments under debt settlements.
 - Estate taxes, forfeitures, gifts, etc.
 - Interest.
- Refunds:
 - Customs.
 - Internal revenue.
 - Processing tax on farm products.
 - Total, general.

Recovery and relief:

Agricultural aid:

- Agricultural Adjustment Administration.
- Commodity Credit Corporation:
 - Reconstruction Finance Corporation funds.
 - Other.
- Farm Credit Administration:
 - Reconstruction Finance Corporation funds:
 - Crop production loans.
 - Regional agricultural credit corporations.
 - Loans to joint-stock land banks.
 - Farm mortgage relief.
 - Federal Farm Mortgage Corporation.
 - Federal intermediate credit banks revolving fund.
 - Farm Credit Administration.
 - Unclassified.
 - Other.
- Federal land banks:
 - Capital stock.
 - Subscriptions to paid-in surplus.
 - Reduction in interest rates on mortgages.

Relief:

- Federal Emergency Relief Administration:
 - Reconstruction Finance Corporation funds.
 - Other.
- Federal Surplus Commodities Corporation:
 - Reconstruction Finance Corporation funds.
 - Other.
- Civil Works Administration.
- Emergency conservation work.
- Department of Agriculture, relief.

Public Works:

- Boulder Canyon project.
- Loans and grants to States, municipalities, etc.
- Loans to railroads.
- Public highways.
- River and harbor work.
- Rural Electrification Administration:
 - Reconstruction Finance Corporation funds.
 - Other.

Works Progress Administration.

Other public works:

- Administrative expenses, Public Works Administration.
- Legislative establishment.
- State Department.
- Treasury Department:
 - Public buildings.
 - Other.
- War Department (nonmilitary).
- National defense:
 - Army.
 - Navy.
- Panama Canal.
- Department of Justice.
- Department of the Interior.
- Department of Agriculture.
- Department of Commerce.
- Department of Labor.
- Veterans' Administration.
- Independent offices and commissions.
- District of Columbia.
- Unclassified items.

Aid to home owners:

Home loan system:

Reconstruction Finance Corporation funds:

Home-loan bank stock.

Home Owners' Loan Corporation.

Federal savings and loan associations.

Emergency housing.

Federal Housing Administration:

Reconstruction Finance Corporation funds.

Other.

Resettlement Administration.

Subsistence homesteads.

Miscellaneous:

Export-Import Banks of Washington:

Reconstruction Finance Corporation funds.

Other.

Federal Deposit Insurance Corporation.

Administration for Industrial Recovery.

Reconstruction Finance Corporation—direct loans and expenditures.

Tennessee Valley Authority.

Total, recovery and relief.

Grand total, expenditures.

(In terms of the bad characteristics of extraordinary budgets, the United States, even to a greater degree than Germany, may be absolved of the stigma of having indulged in objectionable practices.) Any Administration possesses full power to prepare the budget document and accounts in any manner it wishes. However, Congress had approved of all the items which were in the new category. Furthermore, the new classifications were introduced first in the accounts showing actual fiscal results rather than in the accounts of the prospective budget program, as is the case with France's 1936 extraordinary expenditure category.

The interpretation of the deficit in the mind of government officials, Congress, and the press naturally was influenced by the loan-financed category which was simultaneously creating vast quantities of potentially recoverable assets. However, no offsets in the official records were introduced. The budget submitted by the President, as well as the Daily Treasury Statement, continued to include all outlays and to compare a single total for outlays with all receipts. At no time were the gross deficit or the public debt figures in any way influenced by whatever notions regarding the justification for tolerating a deficit were entertained by the Administration. The message transmitting the 1937 budget summarized the fiscal program and the accomplishments of the past year in the following manner:

I. Receipts

II. Expenditures

1. Regular

Total Regular

Excess of Receipts over Regular Expenditures

Excess of Regular Expenditures over Receipts

2. Recovery and Relief

Gross Deficit

Gross Public Debt

Such a classification indicates that (any segregation which is made now is not intended to minimize the deficit. As far as the budget and the accounts are concerned, the segregation has served information and clarification purposes and has hardly deserved the connotation of "trick bookkeeping") which is but one of the descriptions applied by political opponents.

The question of array and presentation is but a minor feature of extraordinary budgeting. Criticism has been levied not against the administrative practices but against the fiscal policies and the acts of Congress which have allowed the Administration to carry out the various activities featured in the "emergency" category. The discussion of federal finances and of emergency expenditures by the Special Committee on Federal Expenditures of the United States Chamber of Commerce¹⁹ may serve to illustrate the broader aspects of the problem which are linked to the "double" or "extraordinary" budget of the Roosevelt Administration.

(At present, there is no doubt that official and unofficial fiscal experts view the finances in a unified manner. Total expenditures, as has already been indicated, are so closely related to total revenues that no valid statement can be made claiming the existence of an extraordinary budget.) Some qualification regarding the accuracy of this statement would have been necessary in 1933.

¹⁹ See Report of the Special Committee on Federal Expenditures, *op. cit.*, pp. 24-26.

CHAPTER XIV

EXTRAORDINARY AND CRISIS BUDGETS—(CONTINUED)

Great Britain and the Empire Group

(Countries in which the British type of budgetary system is found have not been without fiscal crises.) Their failure to accept the practice of creating extraordinary budgets should not be considered as an indication that they have not been subjected to the test of emergencies or conditions which have elsewhere been a temptation to questionable budgetary segregation. (In Great Britain there are no extraordinary or emergency budgets. A clearly developed system of linking a few specific purpose funds to the general budget has removed the necessity for setting up independent budgets to carry items which in other jurisdictions do not appear to be amenable to inclusion in regular budgetary structures.) (The regular categories are adequate to cope with most items. In the fourth category of the so-called self-balancing expenditures and revenues, items which elsewhere would most probably be considered extraordinary in character are included.) In this category will be found the self-balancing and other funds which bear no relation to the usual connotation of extraordinary budgets. (None of the categories are independently loan financed.)

Since the war the tendency to follow the continental practice of setting up extraordinary budgets has been noted in some quarters. (Particularly before the breakdown of many monetary systems through inflation, in large part traceable to excessive expenditures facilitated by extraordinary budgets, these practices were not endowed with their present unsavory reputation in the minds of most students of finance. (Chancellor of the Exchequer Horne in his 1921-22 budget proposed the introduction of an extraordinary budget in addition to the ordinary budget constituting the normal framework of British financing.¹)

The desire to break away from orthodox procedure and to follow Germany and France in their post-war expenditure programs undoubtedly led to the proposals for an extraordinary budget. Following the pattern of the French budget of recoverable items, the Chancellor proposed that the revenue side of the extraordinary budget suggested by him should include receipts from the realization of war assets. The expenditure side was to include liquidation of war commitments. Borrowing would be made in anticipation of receipts. Fortunately the proposal was not adopted, and Britain did not undertake a wave of expenditures made in expectation of uncertain receipts.) During the financial crisis of 1930-32 mention of accounts associated with extraordinary budgeting again was made.² There is no indication, however, that

¹ Mallet et George, *op. cit.*, p. 7.

² *Ibid.*, pp. 314-424.

any exceptional segregation in terms of emergency or extraordinary finances took place. (British deficits were easily recognized, readily attributed to general rather than specific causes, and were not obscured in a manner which an extraordinary budget would have permitted.)

(The budgetary experiences of India, New Zealand, and the Irish Free State are all characterized by an absence of extraordinary budgets.) (However, as indicated in a previous chapter, Australia and Canada appear to have experimented with a suspicious type of extraordinary account segregation in order to meet specific crises.) The Consolidated Revenue Funds, characteristic of each of these countries, offers the most probable explanation of the absence of any impaired budgetary unity on this score.) Since there is no specific mention of the subject in the laws of any of these countries, the failure to find specific prohibitions of multiple budgets cannot be linked to legal limitations. Specific statutory references to the Consolidated Revenue Funds, however, may be interpreted as making it difficult and impracticable to operate with extraordinary budgets of the less desirable type, particularly for the segregation of outlays to be financed by future realization of assets. For example, in the Irish Free State there is no attempt made to identify specific items which may be linked to extraordinary circumstances. The fact that a system of agricultural aid including bounties and subsidies falls entirely outside the scope of the budgetary system has been noted. However, there is no indication that these activities, authorized by permanent enactments, are of the type which must be considered in relation to efforts to conceal growing deficits.

The Canadian capital account and its relation to extraordinary loan-expenditure items has already been discussed. The extra-budgetary status of certain items which might be expected to be featured in extraordinary budgets has also been mentioned. Canada appears to have avoided in recent years any practice which might be regarded as an attempt to minimize deficits by a segregation of extraordinary loan expenditures.³ Prior to the war, as indicated above, the administration capital account was of the less desirable type since it permitted an arbitrary allocation of outlays to the capital category.

(In general, it is not among the nations of the British Empire group that there can be found the notorious extraordinary budget accounts which have been associated with fiscal crises.)

OTHER NATIONS

This section includes a short survey of the other nations which may be definitely included among those that avoid extraordinary budgets.

In Greece the requirement for a unified single budget system was enacted in 1930.⁴ The exclusion of the railway budget from

³ J. A. Maxwell, *op. cit.*, p. 147.

⁴ Law No. 4645.

the regular system need not be considered part of a crisis phenomenon. All the special government organizations are adequately financed in annexed budgets. This segregation plus a classification of items into ordinary and extraordinary budgets for information purposes has met the situation. It should be noted, furthermore, that the extraordinary categories are not necessarily loan financed. The real reason for the apparent unity of the system is that the governments of Greece have seldom been able to raise funds to finance extraordinary budgets. Furthermore, foreign loans made to Greece have been responsible for outside pressure on, and control of, Greek fiscal affairs.

Hungary has likewise avoided the adoption of an extraordinary budget and operates with a classification of items within the regular budget into an ordinary and extraordinary category. The inclusion of transitional and capital items gives to the extraordinary category a somewhat permanent position in the fiscal system and one which need not be related solely to emergency problems. There are, however, some difficulties regarding the extra-budgetary items. The special budgets created, for example, for investment schemes of the foreign creditors fund may be considered somewhat comparable to extraordinary budgets. There has been no indication, however, that the Hungarians have enjoyed sufficient credit resources to encourage any real budgetary manipulations. Hungary belongs to the group of nations whose finances have been under the scrutiny of foreign experts. These experts were sent by creditors, including the League of Nations, in accord with political treaties.

Italy, Turkey, and the U. S. S. R. are countries in which the strong control by dominating political groups has obviated the necessity of carrying on practices designed to pacify opposition parties or to reinforce waning popular support. Criticism and accusations have not influenced budgetary practices, which have been motivated primarily by administrative expediency. In Italy budgets have for many years been operated on a deficit basis. The post-war reconstruction, the various nationalistic programs, including the vast public works schemes, the economic crises and its consequent relief and recovery expenditure burdens, military preparations, and more recently the Abyssinian invasion, have tended to create the necessity for a large scale tapping of credit resources. The efforts to link these to specific funds supposedly self-liquidating and to carry certain debt operations directly to the Treasury accounts without budgetary recognition has been noted. Furthermore, the system acknowledges the existence of multiple budgets, most of which are linked in some manner to the general budget submitted to the Parliament for its nominal approval. The methods of linking the annexed and special budgets to the general budget make it less difficult for the established practice to be recognized. However, the rather complicated set-up of extra-budgetary agencies is one which renders any conclusions difficult. As with many other countries, there has been no account specifically designated as an extraordi-

nary budget, but the obscure credit policies associated with such budgets have nevertheless not been avoided. (The classification of some of the regular accounts in the budget into ordinary and extraordinary items represents an effort to segregate loan-expenditures and is not related to any transient emergency policy.)

In Turkey a more clarified condition is said to exist. There appears to be strict adherence to a legal requirement for the avoidance of budgets, not linked to the general budget, other than the annexed budgets for governmental organizations and business enterprises; there have been no extraordinary or special categories. There does not appear to be any segregation in terms of ordinary and extraordinary items which may be considered to facilitate borrowing and minimize deficits. Turkey may have solved its financial problems with a stringent fiscal policy rather than with budgetary manipulations. It is undoubtedly a laudatory example of sound budgeting.

In Soviet Russia the extraordinary budget device has been abolished. As has been stated before, it is impossible to measure Russian experience and practices in terms of the standards applied to other countries. The accumulation of public debts does not denote deficit financing as such but is part of a broad economic program. Therefore, a segregation, in terms of ordinary and extraordinary categories according to the usual standards, is meaningless. There are no other funds or special budgets. It should be noted that before 1926 an extraordinary budget had been in use. The finances were at that time not yet placed on a planned economy footing, and public debts were viewed differently from their present status. The strengthening and coördination of political leadership and the alleged elimination of severe business cycles is believed to be responsible for the absence of a recrudescence of the extraordinary category.

In the Netherlands very orderly and sound procedures are found. The classifications by funds, functions, and activities, carried within the ordinary budget or closely linked to it, are not devised to conceal loan-expenditures. The classification of the expenditures of each fund into ordinary disbursements and capital outlays further clarifies the fiscal situation and obviates the necessity for any extraordinary budget. The Dutch did have a Loan fund (abolished in 1934), which may have represented an extraordinary budget. The title of the Fund was misleading since the items therein included were not loan-expenditures. The Loan Fund, unlike the other special funds of the Dutch budgetary system, received no grants from the general budget.⁵

Belgium has followed the plan of adopting a loan-expenditure

⁵The Loan Fund was instituted in 1914 in order to cover expenditure for the service of the loans contracted during and shortly after the war. As from 1931, it was also charged with expenditure connected with the crisis. The receipts of the fund represented taxes additional to certain State taxes (income tax, property tax, land tax, tax on dividends, personal tax (tax on spending), certain excise duties — wine, spirits, sugar and certain stamp duties). *L. of N., Pub. Fin., Netherlands, 1928-35, p. 2.*

budget but has fortunately avoided some of the difficulties which the French have encountered. Its extraordinary budget replaces the usual multiplicity of annexed and special budgets. It is a permanent feature of the system and should perhaps not be confused with some of the crisis or emergency budgets. It is not infrequently abolished and then resurrected whenever a Finance Minister feels that it will serve his particular purpose.

Similarly, Denmark's segregation of capital items, while designated as an extraordinary budget, does not warrant inclusion under this heading. As in several other jurisdictions, the term "extraordinary" denotes a capital budget which is not related specifically to crises or to non-recurring programs of great magnitude.

In Sweden also there are no extraordinary budgets with segregated special outlays for the purpose of minimizing deficits. All of the special funds and annexed budgets are linked to the general budget. Instead of setting up transitory emergency budgets to cope with the new economic orientation of the government finances, which developed in connection with the depression and with recovery steps, the Swedes have modified their normal procedure.

✓ Summary ✓

(The several nations whose practices have been reviewed reveal varying attitudes towards setting up extraordinary budgets. In all of these countries the general theoretical conclusions regarding the potential dangers which are involved appear to be justified. Nations with sound traditions in budgetary matters, such as Great Britain and those in the Empire, the Scandinavian countries, and the Netherlands, have in recent years definitely refused to operate with extraordinary budgets. As a result there have been few opportunities for false interpretations of deficits or of public debt policies. Fiscal policies have not been obscured and subjected to qualifying interpretations because of special segregations.)

(The budgetary systems which have consistently retained a definite approach towards budgetary unity and an equally consistent one towards the avoidance of extra-budgetary elements have found it possible to accomplish fiscal policies as effective as those planned when extraordinary budgets were proposed.) It cannot be assumed that the vast spending which has been associated with the French extraordinary budgets, for example, was a feature of fiscal policy which might have been pursued had a more sober budgetary policy revealed the deficits and the true magnitude of the poorly secured public debts which they were creating. The nations which avoided extraordinary budgets did not do so merely because they were able to avoid loan-expenditures. (The size of the current British public debt as well as the recently announced armament program indicates that vast spending programs, wholly or partly financed by loans, can be undertaken under a unified budgetary system.)

(Study of the recent fiscal history of the United States reveals that attempts to institute a double budget system in which emer-

gency loan expenditures were to be segregated have been discontinued. It is by now apparent that within the present unified system there are few limitations on the choice of any desired financing policy.) Germany's experience is obscured but does reveal that success fiscal leaders attempted to create extraordinary accounts. They were motivated in so doing they sought release from deflationary restrictions implied in the legal mandates for budgetary unity.

(It may be concluded that national experience confirms the theoretical indictments of extraordinary budgets.)

Conclusions Applicable to the American States

If the attitudes now displayed in the American states towards borrowing are ever revised, it is advisable that those in charge of fiscal policy refrain from impairing budgetary unity through the setting up of extraordinary budgets. There is no reason why expenditures culminating in realizable assets should not be considered in the shaping of fiscal policy. However, justification for unchecked spending, such as that encouraged by creating special budgets segregated from the normal system, can seldom be found. Extraordinary budgets allow confused balance sheet-inspired approaches and thereby foster relaxed control in terms of current income and outgo. The foreign experience shows a typical desire to avoid taxation, which tends to encourage an over-evaluation of assets or to minimize the burdens which are being assumed in conjunction with debts created through the extraordinary budgets.

If the special accounts fail to achieve a self-balancing status, as they most frequently do, the ultimate burdens fall on the general budget. This occurs also in connection with extra-budgetary items. It is a matter of sound finance to recognize potential burdens from the start. This can be done by carrying all outlays within a normal budgetary framework. No advantages eventually accruing through a productivity of the special expenditures will be lost.

It appears likely that the American states will be subjected to the temptation to operate with extraordinary budget devices, if their borrowing limitations are revised. They are accustomed to think in terms of general budgetary equilibrium at the same time that they are borrowing for special purposes. They have learned to favor the setting up of special and independent authorities to carry out financially self-balancing functions. Furthermore, there are not many commonwealths like New York with its high regard for budgetary unity. Their practices of setting up multiple funds, of linking revenues to specific outlays, and above all, their only superficially disturbed faith in the infallibility of optimistic estimates, all point to their failure to provide a tradition which will militate against extraordinary budgets. The introduction of the abuses associated with transitory experiments in double, emergency, and other variations of the time-honored extraordinary budget device should be strenuously avoided.

CHAPTER XV

✓ ASSIGNED TAX REVENUES

Assigned Tax Revenues and Budgetary Problems

(The widespread use of the assigned revenue device in American state finances has made this problem most important from the point of view of budgetary unity in these jurisdictions.) It is not, however, one which can or should be treated solely as a question of budgetary policy.

A brief analysis of the problem will serve to differentiate between assignments that are essential for the accomplishment of implied taxation norms and those that are based solely on a desire to carry out some budgetary or fiscal policy with respect to the coordination of the revenues and expenditures. It is also warranted for those interested in budgetary problems to question the wisdom of fiscal policies that fill the revenue system of a jurisdiction with benefit levies and similar taxes involving dedications. For the other assignments, those that are motivated by the desire to limit expenditures to assure revenue adequacy, or to grant independence to a segregated function, the problem falls definitely within the range of budgetary questions.

Before turning to the analysis by taxes, purposes, and jurisdictions for both the national and state governments, some other phases of the question will be discussed. These include (a classification of tax yields with respect to their availability for general fund purposes, mention of some of the assignment devices, and a brief survey of the expenditure and revenue control policies that can be achieved through the earmarking device.)

(Several categories of revenues may be considered in relation to justifiable specific assignment.) At the one extreme there are taxes that are linked to a desire for a specific and conscious allocation of burdens, in measurable quantities, to beneficiaries. In the case of such levies as betterment taxes, it is comprehensible that such a specific relationship exists. A segregation is necessary in order to determine the magnitude of the burdens involved. The very nature of the expenditure and outlay deserves special recognition which can be achieved through some policy of separation from the general budget. (Only in cases where a levy covers an entire jurisdiction, as in the case of a borough-wide or city-wide assessment, would it seem possible to eliminate the practice of segregation.) The type of revenue which is here discussed is seldom found in state finances and appears only irregularly and under special circumstances in national finances. The Italian tax system provides for the apportionment of certain tax burdens, the allocation of shares being based in some instances on cost relationships. (There are no such practices in the finances of the United States federal government or of Great Britain. For this reason attention is here directed to the more normal type of

taxes, namely those based on rates.) For these the necessity of linking revenues to specific expenditures becomes less evident.

Taxes and other revenues studied from the point of view of their relationship to expenditures (non-fiscal or penalty taxation, in which revenue yields are an infrequent and mostly undesirable element, are not considered at this point) reveal that there are several types based on different philosophies.

1) Ability-to-Pay Taxes and Assignment Policies

(The first category includes those taxes that are inspired by broader social philosophies of taxation. These deny the validity of a link to specific expenditures calling for a permanent functional relationship. Such a link would tend to defeat the implications of a tax designed to levy burdens with respect to faculty or ability-to-pay, and to disregard any measurable relationship to benefits received.) Revenues are of necessity related to general expenditures unless, in the minds of the legislatures that vote them, some desire to adopt a special budgetary policy is present. While assignments of ability-to-pay levies are common, it should be noted that the practice in these cases is not dictated by factors inherent in the nature of the tax itself. They are justified by particular circumstances which are related to yields, and not to those who bear the burdens. The linking of sales taxes and liquor taxes to relief is an example. Those who buy general merchandise or who indulge in alcoholic beverages have no theoretical justification for assuming that their burdens should be measured by relief payments, either to them or to the general community. Equally, none would claim that relief payments should be limited by the yields from the above-mentioned levies.

(The bulk of the taxes that are the big revenue producers in modern fiscal systems belong in this first category. It includes the taxes based on economic criteria of taxpaying ability) (The income, inheritance, turnover, and similar levies which predominate in national finances explain why the assignments, except in fascist governments, are irregular, decreasing in number as permanent elements, and subject to widespread criticism.) In earlier days assignments were more common and were more widely tolerated. With the introduction of modern faculty levies the need for setting aside yields has decreased. Now that financial systems of the American states include taxes other than those on property and levies similarly benefit-inspired to a considerable extent, the need for the creation of dedicated revenue arrangements decreases.) Bastable's dictum that (it is a general characteristic of an undeveloped finance system to assign a special receipt to meet each special charge) may profitably be recalled by any jurisdiction that has dedicated the yields of its non-benefit levies.¹

¹ C. F. Bastable, *Public Finance* (London, 1917), p. 739.

1 Benefit Taxes and Assignment Policies

(A second category includes taxes for which a logical relationship to expenditures is implied. This takes the form of legislative intent for the linking of rates and prospective yields to specific outlays.) There may be a theoretical justification in limiting the burdens to the expenditures made. (It is claimed that the outlays grant measurable privileges to taxpayers.) (The so-called benefit taxes exemplified by the state motor fuel and vehicle levies, certain property taxes, and fiscal charges linked to regulatory functions, are foremost in this group. They are responsible for the bulk of the assignments found in both state and national finances.) There is, however, no reason why taxes that are deemed by some units to be benefit levies may not appear elsewhere or at different times, or even simultaneously, as taxes based on some criterion other than benefit. It is also evident that the benefit relationship may be obscure and not sufficiently important to warrant an exception from a general fund unity concept. (Some fiscal scientists believe that the philosophy of taxation should lead to a reduction of benefit taxes, and that the rôle which these play should be restricted to highly specialized levies.)

(The trend away from assigning benefit levies is particularly strong when fiscal pressure requires an extension of various benefit levies in order to increase general revenues) as well as specialized outlays. This development may be noted both in the direct contributions made to general fund revenues, by taxes originally designed as benefit levies, and in the raiding of accumulations before they are spent for specific purposes. Assignments of benefit taxes are not always immune to criticism. However, they appear to be too firmly imbedded in our accepted views regarding taxation to be readily abandoned.

} Non-Tax Revenue Assignments

(A third category, consisting primarily of non-tax revenues, includes those in which efforts at a specific and measurable cost allocation are attempted. The government may not be obliged to render a particular service unless a special revenue is collected.) The assignment is inherent in the nature of the function or is a feature that is dictated by legislative intent. (In these cases the necessity for a dedication and for some measure of segregation may be unavoidable. It should be noted, however, that this category covers public prices, tolls and fees, as well as the special forms of taxation (betterment levies) already mentioned.) It is possible, if desired, to minimize the use of such revenue devices as a feature of fiscal policy.)

No effort is made in this chapter to deal in any comprehensive manner with the assignment of non-tax revenues. Therefore

¹ Gerhard Colm, "The Ideal Tax System," *op. cit.*, p. 326.

only occasional mention will be made of assignments that reflect basic cost relationships. Such dedication in national finances has for the most part been covered elsewhere in this study in connection with multiple budgets. (In the American states the rôle that non-tax revenues, other than loan proceeds, play in the revenue system is by no means limited but is overshadowed in budgetary significance by the problem of tax assignments.) Furthermore, the general conclusions regarding the need for avoiding continuing appropriations, independently controlled funds, and a segregation that prohibits unified planning, voting and execution, may be applied to all types of earmarked revenues.

Assignment Devices

(The manner in which yields from a particular revenue source are linked to specific outlays gives some indication of the purposes that are to be achieved by a resort to the practice.)

(In many cases the amount of expenditure is dependent on the yield of assigned revenues. Both upper and lower disbursement limits may be fixed by such yields.) In other cases the entire yields from a specific source are assigned but the expenditure is also financed by other assigned revenues or from other general fund revenues. In this case the assignment is complete with respect to the revenue but is codeterminative only with respect to the expenditures.) This latter category is the usual one found in state assignments of motor fuel and motor vehicle levies for highway purposes.) Funds derived from the federal government and from other state sources, including borrowing, are at all times added to the outlays financed by earmarked tax yields.

(Further types of assignment involve the dedication of only a specific amount, percentage or residue. Similar variations in such dedications have been noted in state finances in connection with the allocation of funds to the local jurisdictions.) The amount may be negligible in proportion to the expected yields and may therefore leave to the general fund the bulk of the burden growing out of variability of the yields. If, for example, a revenue normally yields \$5,000,000, it is not expected that any degree of cycle-sensitivity will decrease yields below several hundred thousand dollars. The assignment of several hundred thousand dollars for a specific function does not carry with it the budget balancing implications that are present when the expenditure is financed wholly by a revenue displaying a cycle-sensitivity totally out of proportion to the behavior of general fund revenues.

(Percentage assignments tend to retain the proportions that are planned when the dedication is initiated. In some cases the assignments become operative only after a stated minimum has been collected for some other purpose.) If the initial dedication is large in relation to the usual yields, the function financed by the unlimited residue may bear a greater burden of the variability.

Motives and Purposes of Assignment Policies

(The variations in assignment devices and methods are almost innumerable, and depend in each case upon the purpose of the assignment and the general circumstances that surround it.) The particular motives determine the assignment device used. (In the simplest form of dedication device the outlays dependent on the variable revenue yield are not previously fixed. This type of assignment may serve to limit or to increase expenditures, depending upon the productivity of the earmarked source.)¹ (In the American states, where functions were financed by special mill levies, there appears to have been reasonable certainty regarding the revenue and, therefore, regarding the expenditures to be financed by them.) In cases where stable revenue sources are dedicated, in full amounts, to a particular expenditure the desire is evidently not to limit the outlay but to give it a preferred position assuring the availability of revenues for its financing.)

(The type of assignment designed to assure a prior lien on yields is perhaps the most common, since many jurisdictions do not wish to limit the expenditure but only to provide definite financing media.) This motive for an assignment can best be seen in cases where the dedication becomes operative only in the event of a default or some other indication of inadequate general fund resources. Another reason why such assignments are found is that they are used whenever it is felt that the revenue measures should be abolished as soon as the need for the particular outlay is removed. Assignments designed to assure adequate funds are used also when there is a desire to prevent legislators or executives from failing to provide funds for a particular purpose. The assignments linked to debt service charges are of this variety.

There are various motives that inspire other assignment methods. (The dedications may be linked to some desire to obtain popular support and approval for a revenue measure that would otherwise arouse antagonism.)² Tying up the yields to a lofty purpose serves to conceal the fact that there is no reason why the particular function should be financed by segregated funds. Whatever may be the motive for the new levy, it is simply a question of adding a new revenue item and a new expenditure that are only indirectly associated.) (The student who observes the assignments in the American states may be impressed by the fact that there are frequently no sound motives and that the assignments are made because of some tradition regarding the practice.)

A tradition built up by a property tax ideology may continue after the importance of that type of levy is reduced. One sure way to give such a tradition, created by and relevant only to property taxes, a quasi-permanent survival value is to embody it in a constitutional clause. At least eleven states provide in their basic laws that the legislature must determine and state the purpose for which each tax is levied.³

The special mill levies of the property tax era and some misguided notions regarding the scope of the public finances are

the best explanations of these clauses. They imply that with each new levy or change in rates the enabling legislation must specify the outlay or outlay group with which it is associated. Unless some broad qualifying phrase dealing with general purposes or the general fund requirements is acceptable, the states will be encouraged to create a dedication that will last as long as the levy itself. Only North Carolina, among the states in which these clauses have been noted, appears to have overcome the bias towards assignments.

In the chapters that follow some effort will be made to note the trend and character of tax assignment practices. Both national and state governments are surveyed. The analysis by taxes, assignment destinations, and by jurisdictions reveals that a deplorable complication has been introduced into expenditure and revenue relations. The breakdown of budgetary unity, usually intensified by the creation of independent funds, goes hand in hand with dedicated revenue yields. The national standards will serve to justify the praise allotted to the small minority of the American states that have avoided assignments where a failure to adopt them did not involve loss of federal aid.

* A list of the states and the constitutional references follows: Arizona, Art. IX, Sec. 3; Arkansas, Art. XVI, Sec. 11; Georgia, Art. VIII, Sec. 3; Kansas, Art. XI, Sec. 4; North Carolina, Art. V, Sec. 7; North Dakota, Art. XI, Sec. 175; Ohio, Art. XII, Sec. 5; Oregon, Art. IX, Sec. 3; South Carolina, Art. X, Sec. 3; South Dakota, Art. XII, Sec. 8; Washington, Art. VII, Sec. 5; Wyoming, Art. XV, Sec. 13.

CHAPTER XVI

REVENUE ASSIGNMENTS IN NATIONAL FINANCES

(The various national governments whose budgetary practices have been reviewed offer many examples of dedicated tax revenues. It should, however, be noted at the outset that a group, including the United States, Australia, Belgium, Canada, Turkey, the Union of Soviet Socialistic Republics, and possibly Rumania, reveals no instances of a major tax revenue actually assigned for any other than general expenditures. France, fascist Germany and Italy, and a few others, show a tendency, such as will be noted in the American states, to earmark all types of tax revenues for varying purposes.)

Assigned Taxes

(The taxes whose proceeds are assigned wholly or in part may be classified into several distinct groups.) Foremost among these is the classification including the taxes levied on various aspects of motor vehicle use, ownership or sale, including taxes on sales of automobiles, accessories, and fuel. The acceptance of a benefit concept with regard to these levies does not appear to be a uniquely American phenomenon. Of the nations that engage in any assignments, few fail to earmark the proceeds of the motor fuel and similar levies.) (Another category that also frequently displays a benefit relationship is that which includes the various taxes whose proceeds are dedicated for the financing of social security programs.) Payroll taxes and taxes on beneficiaries and other special classes are found assigned for unemployment benefits and other social security services. It is comprehensible, though not absolutely essential, that an insurance basis, providing for segregated contributions, forms part of social security schemes.

For the other taxes that are assigned some explanation in relation to the expenditure other than the tax itself must be found. (The "fiscal adequacy" motive appears to be the most likely reason for the retention of some of the stable tax sources outside the regular budget fund.) It is needless to list the kinds of revenues included in this group. In cases where external or internal bondholders are the beneficiaries, some of the most stable and most easily administered levies are dedicated. Such assignments are in many cases voluntarily assumed. There is ample evidence that the dedications have often not achieved the initially desired purposes.

In connection with taxes on incomes and wages, which along with others have been assigned for such a "transitory" function as unemployment relief, it is probable that these taxes have been

chosen because they lend themselves to imposition of rates added to an existing tax structure. In conclusion it may be stated that (there is no widespread assignment by national governments of any particular levies other than those on motor vehicles and on payrolls and wages.)

Assigned Revenue Destination

(In the national units road, social security and sinking funds appear to be the most common recipients of assigned revenues. The association of highway and social security expenditures with dedicated tax revenues requires no further explanation.) However, the problem of revenues assigned for debt service charges is not adequately covered by taking into consideration only operative assignments. (There is a widespread practice consisting of pledging revenues as security for government bonds) This implies a potential assignment which comes into force when the debt service payments for interest or amortization, or both, are defaulted. A recent study has indicated the fact that approximately 22 per cent of a representative sample of 933 direct government obligations featured pledged revenues as security.¹

While in the South American countries the practice of pledging revenues is extremely popular, the Balkan states, Czechoslovakia, Esthonia, France, Germany, Greece, Hungary, Italy, Poland, Portugal, Rumania, Spain, and Yugoslavia on the European continent, have also hypothecated tax revenues. At least five of this group, including the three leading powers mentioned, also assign revenues to sinking funds. The dedication of these tax receipts is operative during the life of the obligation or of the enabling legislation. (Customs duties and monopoly profits are the revenues that are most often pledged for this purpose. However, income taxes and other direct and indirect levies are also assigned. The experience of both bondholders and pledging jurisdictions has not been such as to indicate many advantages in this type of revenue-expenditure link. Defaults indicate crises which in turn are hardly aided by inflexible tax systems.)

(Special economic and social programs represent another type of policy requiring dedications for grants and subsidies. In the United States efforts to have specific tax revenues set aside for certain grants and subsidies have been far from unknown.) Other nations have not had their schemes invalidated, and show more lasting examples of taxes on commodities or on sales, processing and various other taxable bases. (The nations leaning towards planned economies, including New Zealand and Sweden, and naturally the fascist powers, lead in providing examples of taxes that have been imposed in connection with special economic and social measures.)

There are only a few other cases of assigned revenues where some explanation can be found for the dedication in the nature

¹ Raymond W. Coleman, "Pledged Revenue as Security for Government Bonds," *American Economic Review*, Vol. XXVI, No. 4, Dec., 1936, p. 668.

of the tax or the tax base. (In one or two instances taxes such as net fortune levies, death duties, and those on capital gains are related to capital outlays. Such a link is conceivable where efforts are made to prevent a dissipation of capital resources through their use in financing current outlays.) In a certain sense such assignments may be grouped with those mentioned in connection with special economic policies.

National Finances

In the survey by jurisdictions, which follows, it will be shown that (only France, Germany, and Italy offer instances of many assignments that cannot be readily classified into the above-mentioned four categories)

(The status of the assignment problem in the federal government of the United States, in Great Britain and the Empire group, and in several other leading nations) is surveyed below. Where assignments are noted an effort will be made to analyze the budgetary arrangements and processes involved.

United States Federal Government

The national government in the United States ranks high with respect to the absence of specific tax assignments. It is evident that, at least for the second Roosevelt Administration, the policy of avoiding assignment was one forced upon it by indirect legal sanctions and not in keeping with its own desires. With respect to legal restrictions it can be stated that there is no prohibition by law regarding the earmarking of tax revenues. There are also no requirements that may have been interpreted in a manner restricting specific assignments or preventing the imposition of specific taxes for the benefit of classes or groups that are consistent with the Supreme Court's interpretation of general welfare. However, the fact that the yields of certain taxes are not available for general expenditures has served to induce a belief that an unwarranted use of the taxing power for regulatory purposes is involved. At present there is some evidence that assignments are avoided because of the fact that they aid in supporting the contention that regulatory functions are being administered through the tax.

The assignments, that were a feature of the Agricultural Administration Adjustment Act and the Guffey Coal Act and various other agricultural and conservation programs, were outlawed when the acts themselves were declared unconstitutional by the Supreme Court. There exists, therefore, at present no major federal tax revenue that does not accrue to the general fund. A few minor assignments, such as that found in connection with the 3-cent per pound processing tax imposed by the 1934 Revenue Act on cocoanut oil imported from the Philippines, may be noted. In this example, a separate fund for the Philippine Treasury is created and the special territorial elements that enter into the situation indicate no reversal of policy.

(The burden of specific tax assignments used in connection with the social security programs has been transferred to the states, and the federal government does not engage in any earmarking of tax yields.) The Social Security Act imposes three separate federal taxes, the proceeds of which are paid into the general fund of the United States Treasury.

A few cases of non-tax revenue assignments can be found. Several agencies are empowered to retain revenues received by them in the course of their rendering of services. In connection with our monetary and banking systems a few other specific assignments are noted. Furthermore, funds from the realization of some assets belonging to the government are also, as in the case of the foreign obligations owed the United States, linked to specific purposes.

(While it may be categorically stated that there are no major specific-tax assignments in the federal revenue system, there have been attempts to create imaginary links. Foremost among these is the connection between the gasoline tax revenues collected by the Treasury and the appropriations for expenditures on roads that are made through the Bureau of Roads of the Department of Agriculture. At other times the adoption of specific levies, when revenues for the defraying of certain known expenditures were needed, may also have created some imaginary assignment link in the minds of Congress and the public. A recent example is found in the Revenue Act of 1936, which was passed in order to satisfy the need for new funds created by the outlawing of the A.A.A. processing taxes and the passage of legislation for the prepayment of veterans' adjusted service certificates.

It is fortunate that Congress has not, as have the state legislatures, perpetuated any temporary financing relations in links fostering multiple funds and impairing budgetary unity.

Great Britain

(The nations in the British Empire group make only insignificant use of dedicated revenues. In addition to the almost universal practice of linking motor vehicle and fuel levies to highway expenditures, Great Britain and the nations under its influence have used only infrequently the device here under review.) The few assignments noted are used in relation to special economic measures.

(In Great Britain the Consolidated Fund Act, providing for a unified revenue fund, does not encourage the practice of earmarking revenues for specific expenditures) through the setting up of autonomous funds. Any legislative intent for earmarking funds can, however, be readily carried out.

(There are two funds that are financed by special tax revenues. The first is the Road Fund to which the revenues from the motor vehicle and motor fuel taxes are assigned.) The annexed status of this specific-use fund and the so-called raid that was perpetrated early in the recent financial crisis have already been noted.² (Secondly, various taxes on employees and employers are

² See p. 146.

collected and linked to the Unemployment Insurance Fund.) The extra-budgetary character of this Fund has also been commented upon. (Receipts of this Fund are not considered national revenues and are in no way affected by the estimating and voting procedures to which other items are subjected.) The various continuing expenditures carried in the Consolidated Fund are not linked to any dedicated revenues.

However, through a system of appropriations-in-aid based chiefly on self-collected fees, tolls, licenses, and other non-tax revenues, a number of self-balancing funds are also created.

The Empire Group

In New Zealand there does not appear to be any legal limitation on the use of assignments. As a result there are more assignments than are usually found in a unit within the Empire group. The motor vehicle and motor fuel levies are dedicated to the main highways account. Emergency income, poll, and wage taxes are assigned for unemployment relief under a less permanent set-up than is found in Great Britain. The program is linked to the recent crisis and the subsequent recovery efforts. Furthermore, as features of an industrial recovery plan, certain custom duties are collected and expended solely for subsidies granted to specified industries. The assignments associated with the economic recovery programs appear in the regular budget and do not receive the special recognition that might be accorded them through their segregation in specific-use funds. A separate account is carried in an annexed budget maintained only for the highway funds.

(In India apparently almost all tax revenues are available for general purposes, one exception being made in connection with highway construction.) (A fixed percentage of the import and excise duties on motor fuel and on kerosene oil is applied towards the development of rural roads.) A self-balancing road fund, classified separately in the government accounts, is created for this assignment.

There exists in India a category of non-tax revenues known as cesses. These are fees or similar burdens imposed in connection with certain commodities. Concerning them Professor Shirras has written as follows to the writer:

With the exception of certain cesses (which are not revenues) raised under specific Acts of Legislature, the proceeds of which are applied for specific purposes, such as cotton cess, lac cess, tea cess, etc., all revenue raised is ordinarily usable for the general purposes of the government.²

In the Irish Free State the existence of the Central Fund, corresponding to the Consolidated Funds of Great Britain and the dominions, makes difficult the toleration of widespread assignments and the multiple budgets associated with them. O'Connell notes the following constitutional article dealing with the problem.

² From a letter under date of Jan. 12, 1937.

All revenues of the Irish Free State (*Saorstát Éireann*) from whatever source arising, shall, subject to such exception as may be provided by law, form one fund, and shall be appropriated for the purpose of the Irish Free State in the manner and subject to the charges and liabilities imposed by law.⁴

The same authority states further that under the Constitution (Art. 61) in certain exceptional cases, as provided by law, the revenues are not paid into the Central Fund. He adds:

Some of these cases are set out in the Exchequer and Audit Departments Act, 1866, which, with the Exchequer and Audit Act, 1921, has been continued in force in *Saorstát Éireann* by the Adaptation of Enactments Act, 1922. Section 10 of that Act provides that the Commissioners of Customs, the Commissioners of Inland Revenue and the Postmaster General shall pay the gross revenues of their respective department to the Exchequer Account after "Deductions of the Payments for Drawbacks, Bounties of the Nature of Drawbacks, Repayments and Discounts."⁵

Some of the tax assignments are features of economic and social legislation. Levies on certain agricultural products are allocated to special funds and are applied for expenditure on rural bounties and subsidies. These measures have been in force since the imposition in 1932 of special British tariffs on Irish agricultural products. As in the case of other unemployment insurance programs, the independently financed National Health and Unemployment Insurance Funds, financed by special taxes, fall completely outside the scope of the Irish Free State's budgetary system. There is also a road fund which is financed in the usual manner.

Other exceptions to the Central Fund covered by specific legislation include the finances of the Land Purchase Acts and the Church Temporalities Funds. Their fiscal importance is negligible, and due to their minor character, the evils associated with the existence of such extra-budgetary assignments have not been encouraged. It should be noted that in the last two cases the assigned revenues are not derived from tax sources.

Also, the British type of appropriations-in-aid has been noted. O'Connell's comments on these items explain their rôle in the fiscal and budgetary system:

Another exceptional case "as provided by law," in which the revenue does not reach the Central Fund, is that of Departmental Receipts—(technically called Appropriations-in-Aid) which, as we have seen, a department may be permitted to use in aid of its expenditure. This exception is governed by the Public Accounts and Charges Act, 1891. Section 2 (2) of which provides as follows:

⁴ O'Connell, *op. cit.*, p. 16.

⁵ *Ibid.*

All money directed by or in pursuance of any act (whether passed before or after this Act) or by the Treasury to be applied as an appropriation-in-aid of money provided by Parliament for any purpose shall be deemed to be money provided by Parliament for that purpose, and shall, without being paid into the Exchequer be applied, audited, and dealt with accordingly, and so far as it is not in fact so applied shall be paid into the Exchequer.⁶

Ranking with the United States, Australia and Canada, both refrain from dedicating tax revenues for specific purposes. In the former Commonwealth it is reported that occasional assignments have been made from time to time. In neither case is there any specific statutory prohibition of the practice. Moreover, the Consolidated Revenue Funds do not discourage assignments, since it is possible to earmark monies for special purposes. The existence of the funds, however, does not encourage such assignments and, as will be noted in England, does not bring with it an undesirable practice which elsewhere grows out of the adoption of assignment policies.

The earmarking of tax revenues does not appear to be a prominent feature of the systems of the British Empire group. Of the six jurisdictions surveyed two have abolished it entirely, four follow the benefit basis implied in motor vehicle and fuel levies, and two dedicate social security revenues. Only New Zealand and the Irish Free State provide examples of other assignments.

Other Nations: Restricted Assignment Group

Other countries that at present feature no assignments of important tax revenues include Belgium, Rumania, Turkey and the U. S. S. R. It is interesting to note that there appears in none of these countries, with the exception of Turkey, any constitutional mandate prohibiting assignments.

In Belgium, as in Australia, tax assignments are known to have been made in the past but, according to recent information, are not a feature of current fiscal policy.⁷

Regarding Rumania there appears to be some confusion in the available information. An official who has supplied data on budgetary matters has reported the absence of specific assignments while the recent survey by the League of Nations⁸ reports that receipts of the tax on motor fuel and other levies are assigned to the Road Fund. In any event, there is no tendency to favor the widespread dedication of tax revenues.

In the U. S. S. R. there are no taxes dedicated for any specific purposes. As is the case in many other countries, the dedications are restricted to non-tax receipts.

⁶ *Ibid.*

⁷ *National Budget System of Belgium, op. cit.*, p. 2.

⁸ Letter to the writer from Dr. Panrait R. Gheorghiu, Ministry of Finance, Bucharest, under date of Jan. 24, 1936.

⁹ L. of N., Pub. Fin., 1928-35, Rumania, *op. cit.*, p. 2.

Turkey represents a unique example of a nation, with legislation prohibiting specific assignments, and which has not amended its laws for any particular legalized exception. Nor has Turkey gone outside its legalized budgetary framework to indulge in extra-legal assignments.

Nations Featuring Assignments for Debt Service

Five nations appear to have set aside revenues primarily for the retirement of and interest payments on, outstanding public debts. In two of the small nations these assignments have been forced upon the jurisdictions by foreign creditors.

In Greece some revenue sources, including excises and custom duties on salt, playing cards, cigarette paper, tobacco, stamps and alcohol, as well as custom duties collected at designated points of entry, are dedicated for the benefit of foreign bond-holders. The assignment was brought about by the International Finance Committee in 1898. The Greeks have not created any specific-use fund to carry these revenues and have incorporated them into the general budget. Parenthetically, it may be noted that another problem has superseded the collection of revenues that influenced the adoption of these dedicated practices. Foreign bond-holders are more concerned with the transfers of their funds from the debtor nation than they are with the ability to receive payments in local currencies. The importance of the dedication as an element in maintenance of debt service charges has thereby been lessened. Outside of these foreign-imposed practices the Greeks do not have any instances of specifically-assigned major taxes.

Similarly, Hungary has been required to dedicate the gross yield of its tobacco monopoly and sugar tax and the net yield of its salt monopoly for the service of the League of Nation's reconstruction loan. In addition, there are several funds that are financed by dedicated taxes. Among these is the tax assigned for sick relief expenditures.

A number of relatively unimportant dedications are found segregated in autonomous funds that are administered wholly outside the scope of the regular budget. These extra-budgetary accounts are under the jurisdiction of Parliament and are reviewed for it by the Supreme State Court of Accounts, a judicial auditing body. A specific-use fund has been created for the funds dedicated for external purposes. The several instances of tax revenues dedicated for expenditures within the State are carried in the regular budget. A further limitation on the dangers associated with dedication practices is avoided by subjecting the expenditure to the annual appropriation law.

France, Germany, and Italy practice the assignment of revenues for different retirement services, but in each of these nations the dedications are a feature of a rather widespread policy of assigning revenues.

France

(France always leads in the array of complicated budgetary devices. She is also a leader in the number and complexity of her assigned revenues as well as in the deplorable practices that have become associated with them.) French legislation on the subject is somewhat vague. There does not appear to be any prohibition on the assignment of revenues, although there is some indication that there are legal requirements regarding the absolute independence of the operations concerning revenue collection and expenditures.¹⁰

Whatever the requirements may be, they are readily modified or avoided. (The extra-budgetary character of the tax revenue assignments) that (are segregated) in the autonomous *Comptes Spéciaux du Trésor* has been noted in connection with the study of the comprehensiveness of the French budgetary system. These special treasury accounts feature mostly the assignment of revenues from loans and other non-tax revenues. Foremost among the extra-budgetary funds that receive dedicated revenues is the so-called *Caisse d'Amortissement*. The array of important tax yields assigned to it is impressive, while from non-tax sources come the lottery and tobacco monopoly profits. Taxes include registration (*Taxe sur la première mutation*) and inheritance levies (*Droits de succession*). Any budgetary surpluses recorded must also be turned over to the Caisse, which receives grants and special contributions as well.

Certain minor tax revenues are dedicated for specific expenditures. The continuing outlays made under these dedications are not annually voted but the totals are included in the budget statements submitted to Parliament. These include the assignment of the business and professional license fees for the maintenance of the Bourses and the semi-official Chambers of Commerce. Another example is the so-called apprentice tax, the yield of which is assigned for research and technical instruction in the industry from which the revenues are collected. Pari-mutuel taxes are dedicated to the support of agricultural educational institutions. There are numerous others and many have been adopted and abolished in the post-war period.

Because of the obvious failure of existing legislation to prevent their introduction and because of the widespread criticism of the budgetary abuses with which they are associated, a reaction against assignments was felt a few years ago. A number of them were abolished and replaced by direct subventions out of general funds.¹¹

It is not improbable that the feeling against the assignments, coming in one of the rare periods of prosperity and stability in French finance, may have merely been a reflection of a desire to retain the benefits and remove the taxes.

¹⁰ Geny, *op. cit.*, p. 411.

¹¹ *Ibid.*, p. 416.

Italy

Italy has a statute prohibiting the assignment of revenues for specific expenditures but, in many cases, there is an amendment instituted with each specific infraction. The lucrative tobacco monopoly, as in France, is linked to a sinking fund. Furthermore, the usual assignments of automobile and motor fuel taxes to a road fund are found. The autonomous character of the road fund has already been noted. There are also either permanent or temporary rates added to the many taxes measured by income. The proceeds are used for stated purposes.

In addition to these a number of assignments are carried as bookkeeping items in the budget of the Ministry of Finance in which all revenue collections are segregated. These include the assignment of the taxes on amusement and entertainment for the Corporative Society of Authors. Another much-publicized dedication is that of the proceeds of the special income tax on bachelors for defraying the expenditures of the maternity and infant welfare work activity. Additional assignments have been created in connection with the recent military expeditions. In view of the fact that the government has considerable discretion in the execution of the budget, it is not bound by the restrictive influence that an assignment policy might normally create.

Germany

In Germany Article 29 of the *Reichshaushaltsgesetz* prohibited, as a part of the administrative practice of the government, the specific assignment of tax revenues. It was recognized, however, that specific legislative authorization for such assignments could be granted and budgetary provision for them was made. The writer has been informed that the Ministries of Finance operating under the Republic, as a matter of principle were opposed to the assignment of revenues. The comments of a high ranking official are of interest.¹²

We refer to this type of expenditure financing as revenue assignment since the revenues may be used only for specified purposes. In general, we are of the belief that such assignments are not to be recommended and that their use is to be avoided. They restrict the necessary flexibility of budgetary execution and are not fully in accord with our basic budgetary laws. Section 29 of the *Reichshaushaltordnung* is formulated as follows:

All receipts of the Reich serve as financing media for all outlay needs of the Reich; exceptions are to be made only when provisions in the *Haushaltsplan* or in other laws provide to the contrary.

I view the restriction of budgetary policy as growing out of the fact that essential expenditures cannot always be sup-

¹² Letter from Ministry Director Dr. Olscher, Berlin, under date of Feb. 17, 1934.

ported. When assignments are present in large magnitudes, an effective budgetary retrenchment policy is not feasible. On the other hand assignments may be of value on occasions when they serve to restrict expenditures to the amounts actually collected. We view the disadvantages of assignments as outweighing any possible advantages and we make very little use of them. (translated)

Official opinions notwithstanding, Germany's use of the assignment device was significant.

In connection with its internal and external debts a few dedications were required. It will be recalled that under the various efforts to collect reparations some part of the earnings of the State railways were assigned for the foreign creditor nations. A minor assignment was that of the wine tax for vineyard subsidies.¹³ A similar economic policy motivated the earmarking of the building rent taxes for construction grants. During the economic crisis special taxes on earnings and incomes were assigned for unemployment relief. The central and local tax coordination system required the assignment of the yields of some specific levies. One of the many non-tax revenue assignments was made because of the linking of shares of the governmental profits of the Reichsbank to the retirement of treasury bills. In keeping with the strict prohibition of extra-budgetary and multiple accounts, all assignments appeared as regular budgetary items, except in the case of the segregated railway budget.

The creation of specially financed social and economic activities is a prominent feature of fascist government finances. In Germany they have become very widespread under the National Socialist regime.

The processing tax on fats, the yield of which is assigned for relief distribution, is one of the many assignments inaugurated by the current government. Many taxes, fees and licenses are assigned to defray part of the expenses of the Ministry of Propaganda and Enlightenment. The linking of specific income taxes to the increased marriage and birth rate drive is responsible for several assignments featured in the use of the fiscal system to support the demographic campaign.¹⁴

Other Nations: Featured Assignment Group

An instance of the dedication of revenues for the monetary and credit activities of the nation has been noted in Czechoslovakia. To an extra-budgetary account created in 1929 for the redemption of notes in circulation have been assigned the yields of the capital levy and the tax on capital gains. Furthermore, a fund for the redemption of floating debt, created in 1927, has assigned for its benefit the yield of several general and special trade taxes, the general income tax, and the tax on turnover and luxury.¹⁵

¹³ Neumark, *op. cit.*, p. 174.

¹⁴ See Karl Barth, *Das Bevölkerungsproblem und seine Auswirkung in der neuen deutschen Steuerreform* (Leipzig, 1936), *passim*.

¹⁵ L. of N., *Pub. Fin.*, Czechoslovakia, 1928-35, p. 4.

This dedication for the debt redemption fund is in reality part of an effort to assign surpluses to debt retirement and to prevent their expenditure for general purposes.

It is provided that collections more than five per cent in excess of the estimates from these levies shall be dedicated to this fund. The assignments are shown in contingent expenditures not provided for in the budget of the Ministry of Finance.

Finally, we note three countries—Denmark, The Netherlands, and Sweden—hitherto associated with acceptable and sound budgetary practices, which have chosen to experiment with tax assignments. In Denmark there is no general legislation covering specific assignments and there are several examples of them. The existence of several semi-independent funds carried in annexed budgets to which these revenues are dedicated has already been noted. The usual automobile-highway connection is found in the assignment of the yield of the sales tax on automobiles to the Municipal Road Fund. A tax on railway charges is assigned for the construction of railroad capital equipment. This signifies that the yield is featured as a capital receipt along with special crisis taxes and the succession duties that are linked to the capital category of expenditures.

In The Netherlands there is no prohibition of revenue assignments. The usual practice is to set up a specific-use fund linked to the general budget for any expenditure activities that receive funds other than contributions from general revenue yields. The motor vehicle and fuel taxes are assigned to the Transportation Fund. Others, including the agricultural crisis and the unemployment subsidies funds, receive general revenues as well as the proceeds of several specifically assigned taxes. The Agricultural Crisis Fund receives the yields of taxes on production, stock transfers, transport negotiations, and export of agricultural products. Also the proceeds of sales and profits of certain established monopolies. Prior to its abolition the Loan Fund received assigned revenues based on certain additions to estimated receipts of taxes on incomes, property, land, dividends, and personal spending, certain excise duties on wine, spirits, and sugar, and certain stamp duties. In general, the Dutch appear interested in limiting expenditures by linking them to the yields from specific sources.

Finally, Sweden may be noted as having several examples of specific revenue dedication. There is no legal prohibition regarding such practices. As elsewhere, automobile and motor fuel taxes, and in this case, automobile tire levies, are dedicated for highway expenditures. An interesting practice, which clearly expresses the American attitude towards margarine taxes, is found in the dedication of the yields of those levies in Sweden for subsidies to the dairy industry. Furthermore, there are other assignments of various taxes to funds collected for the regulation of taxed industries and institutions. The affected revenues are all carried in specific-use funds linked to the general budget. In addition, an assignment of a certain portion of the income of

State enterprises for capital expansion charges, as in the case of Denmark, is found. An important dedication is found in connection with Sweden's linking of its alcohol monopoly to temperance activities. Income from various sources accruing to the Intoxicating Liquor Fund is retained by it for expenditures made under its own auspices. The fund was maintained on an autonomous basis, and until 1933-34 its revenues were not considered to be national revenues. In that year some of its assets were liberated for general purposes.

✓ Summary and Conclusions

(There are conflicts in the national policies regarding the dedication of tax revenues. The developments in some modern fiscal systems tend to eliminate the assignments. On the other hand, the growth of motor vehicle use, the acceptance of welfare policies culminating in social security programs, and most recently, the sharp increase in interventionistic economic schemes involving benefits and cost allocations, have encouraged assignments.) Fascist economies must also be recognized as a factor in their recrudescence. (It is not improbable that the assignments may be eliminated as some of the newer and exceptional cost elements are absorbed into the normal framework of the national fiscal systems.)

(From the point of view of budgetary efficiency in general, and unity in particular, the national experience with assignments confirms the validity of the normative principles that condemn them. Extra-budgetary accounts, as well as annexed budgets inadequately linked to the regular budget, are associated with the practice. The common difficulties that are traceable to a disregard of budgetary comprehensiveness and unity are found.) (It is possible also that some of the non-fiscal motives are not successfully achieved.) The unknown cycle-sensitivity of the taxes, as well as constant modifications and manipulations, tend to defeat the purposes that originally gave rise to the assignments.)

(Assigned funds are diverted through raids. Expenditures that are to be limited by assignments are increased through budgetary grants.) (Creditors have in many cases found that the assignments are no bar to a breakdown of debt services, in the instances in which the sinking fund dedications have successfully protected creditors, the distress of the general fund has been unreasonably intensified. There is little indeed in the national experience that could be drawn upon to defend the attitude of the majority of the American states towards this problem. The proportion of the nations surveyed that avoid the assignment of any major tax yield is greater than the same classification in the states.)

This analysis of tax assignments concludes the study of budgetary unity in national finances. Loan-expenditure segregation, multiple budgets and crisis-inspired extraordinary accounts appear to be the worst offenders. If only the impairments of budgetary

unity growing out of assigned tax revenues were noted, the record would not be bad. This fact serves to indicate that the American states would find it relatively easy to achieve unified budgetary systems. The limited debt operations, their restricted activities and services, and the relatively stable scope of their fiscal operation (as compared with that of national governments) offers to them an opportunity for budgetary unity which the national finances are denied. However, in the chapters following it will be shown that the opportunities have been overlooked.)

CHAPTER XVII

ASSIGNED TAXES IN STATE REVENUE SYSTEMS

(A brief survey by leading tax types will indicate the extent to which the assignments have penetrated state financial systems. It will indicate also that the policy of dedicating revenues to specific expenditures is not limited to those taxes that by their nature represent cost allocations for benefits received. The assignments represent in most cases additions to sums shared with the localities, thereby further reducing in each case the availability of tax yields for general purposes.)

Motor Vehicle Taxation

(There is a universal earmarking of some portion of motor vehicle and gasoline fuel revenues.) This dedication, as has been noted, is fostered by a widespread belief in the benefit element involved in such taxation. This belief is supported by organized taxpayer groups, by the federal aid basis, and to a minor degree by judicial mandate. The latter may be noted in cases where taxes on interstate carriers were upheld because the proceeds were dedicated to the upkeep of roads upon which the carriers moved.¹ No small measure of support of the practice is due to a strong tradition that has translated itself into statutory and constitutional expression.

Whatever antagonism to such a policy may exist, it has succeeded only in introducing peripheral modifications. These, which are noted below, have consisted of steps towards taking or borrowing accumulated moneys of the highway funds or in using some part of the tax revenues collected for non-highway purposes. There is, and probably can be, no complete elimination of this category of assignments under present conditions.

Because of the universality of motor vehicle and fuel taxes dedication, it may be of interest to note the disposition of the receipts. The data have been compiled from the "Disposition of Funds" columns of the "Motor Vehicle Fees and Special Taxes" table in the *Tax Systems of the World* and from the 1936 volume of Professor Crawford's biennial survey of gasoline taxation in the United States. They appear in Table IX.

Motor Vehicle Fees and Special Taxes

The taxes on the ownership of motor vehicles, collected chiefly through registration fees, indicate a tendency for states to retain the funds for state expenditure. There is no widespread practice of turning over yields to the localities for their own highway and street expenditures. Twenty states, including Arkansas,

¹ See *Sprout v. South Bend*, 277 U. S. 163 (1928); also *Interstate Transit Inc. v. Lindsay*, 283 U. S. 183 (1931).

Connecticut, Delaware, Illinois, Indiana, Louisiana, Maine, Massachusetts, Minnesota, New Hampshire, New Jersey, North Carolina, North Dakota, Pennsylvania, Rhode Island, Utah, Virginia, West Virginia, Wisconsin, and Wyoming, expend through state channels all the motor vehicle funds, applying them for highway purposes.²

TABLE IX

DISPOSITION OF FUNDS—MOTOR VEHICLE FEES AND SPECIAL TAXES

| | |
|---------------------|---|
| Alabama | Mileage tax fees to Motor Carrier Fund. ¹ Other fees: 80% to state for highways; 20% to town or county. |
| Arizona | 50c per fee to county for collection. Balance to State Highway Fund. |
| Arkansas | State Highway Fund. |
| California | 50% to State Highway Fund. 50% to county highway funds. |
| Colorado | Up to 50% for collection expense. 50% of balance to State Highway Fund. Remainder to counties. |
| Connecticut | State Highway Fund. |
| Delaware | State Highway Fund. |
| Florida | Net to County School Fund. |
| Georgia | State Aid Road Funds. |
| Idaho | 10% to State Highway Fund. 90% to counties. All of gross earnings tax to Highway Fund. |
| Illinois | State Road Fund. |
| Indiana | State Highway Fund. Motor carriers tax to General Fund. |
| Iowa | 50c per fee to County Gen. Fund. 2½% to expenses of State Highway Comm. 3% to Motor Vehicle Dept. 1% to Refund Account. Balance to Primary Road Fund. |
| Kansas | Gross ton mile tax to Highway Fund. Other fees to counties. |
| Kentucky | State Road Fund. Half of truck fees to counties. |
| Louisiana | General Highway Fund. |
| Maine | State Highway Fund. |
| Maryland | ½ to Baltimore. ½ to State Roads Comm. |
| Massachusetts | State Highway Fund. |
| Michigan | \$6,000,000 to counties for roads. Balance to state highways. |
| Minnesota | Trunk Highway Sinking Fund. |
| Mississippi | To county road funds. |
| Missouri | County Road Fund. |
| Montana | State Road Fund. |
| Nebraska | Bus fees to State Highway Fund. Other fees to County Road Fund. |
| Nevada | 15c per fee to county. 50c per fee for state expenses. Balance to Highway Bond Redemption Fund and State Highway Fund. |
| New Hampshire | State Treasurer for highway purposes. |
| New Jersey | State Treasurer for highway purposes. |

² See Table IX.

¹ After deduction of expenses of the Public Service Commission (maximum of \$15,000) half of the balance of the Motor Carrier Fund goes to State highways and half to counties for highways.

Source: "Motor Vehicle Fees & Special Taxes in the Various States, Jan. 1, 1935." Prepared by E. H. Riley, Bureau of Labor Statistics, *Tax Systems of the World, Tax Research Foundation*, 6th ed. (Chicago, 1936), p. 152.

| | |
|----------------|--|
| New Mexico | 2/3 to State Road Fund. 1/3 to counties' road funds in proportion to collections. |
| New York | 75% to State Highways. 5% to N. Y. City. Balance to counties according to highway mileage. |
| North Carolina | State Highway Fund. Common carrier fees to General Fund. |
| North Dakota | Special Carriers' fees to Auto Transportation Fund. Others to State Highway Fund. |
| Ohio | State and county road funds and for poor relief. |
| Oklahoma | Carriers fees to State Highway Fund. 40% of other fees to State Highway Fund. 60% to county, which gives 15% to cities for streets and alleys. |
| Oregon | \$1,600,000 to counties. Balance to State Highway Fund. |
| Pennsylvania | State Motor License Fund. |
| Rhode Island | State roads. |
| South Carolina | 80% of county receipts to State Highways. Up to 20% for expenses of Highway Comm. Balance to county roads. |
| South Dakota | 48% to County Motor Vehicle Fund. 30% to County Special Highways Fund. 2% to State Motor Vehicle Fund. 20% to State Highway Fund. |
| Tennessee | Half to counties. Half to State Highways. |
| Texas | Not over \$175,000 to each county for road and bridge fund. Balance to State Highway Fund. |
| Utah | Motor Vehicle Fund. For State Road Bond Sinking Fund. |
| Vermont | \$300,000 to towns for highways. Balance to state highways. |
| Virginia | State Highway Fund. |
| Washington | \$500 per mile of primary state highways to cities. Balance to selected state highways. |
| West Virginia | State road fund. |
| Wisconsin | Ton mile taxes to General Fund. Registration fee to highways. |
| Wyoming | State Highway Fund. |

Many other states retain the major share for their own use. Among those which turn over minor shares for administrative purposes or for urban streets or rural roads, are Alabama, Arizona, Maryland, Nevada, South Carolina, and Vermont.

New York retains 75 per cent of the receipts of its motor vehicle registration fees for State highway purposes. Only a handful of states, including Florida, Georgia, Mississippi, and Montana, turn over all the receipts to the localities, thereby removing the assignment into the category of state-aid. One may conclude, therefore, that as far as motor vehicle revenues are concerned, the assignments cannot be traced primarily to state-aid policies.

It will be noted that the different arrangements for carrying out the dedications distribute the burden of unstable yields in varying degrees. However, in connection with motor vehicle revenues the problem is relatively insignificant because of the known stability and comparative ease of estimating these levies. Furthermore, there are only a few instances of fixed amount assignments that might result in any unevenly balanced distribution; the bulk of the dedications or sharing formulae call for percentage allocations of net proceeds. This implies that the states have neither

minimized nor intensified the burden of supporting any potential variability of yields through sharing with the localities.

There are only a few indications of a failure of the states to use, for highway purposes, all the revenues that they collect from the taxation of some phase, other than fuel, of motor vehicle ownership or use. Indiana's motor carriers tax, North Carolina's common carriers fee, and a portion of Ohio's registration fee appear to be the only examples in 1935 of the so-called diversions. In view of the fact that even in these States only a portion of the receipts from the several motor vehicle taxes or fees is a general fund revenue, or is assigned for a non-highway purpose, it may be stated that the dedication of these revenues for road purposes, through direct expenditure or through the payment of debt service charges on highway obligations, is universal. Some \$320,000,000 annually is involved.

Motor Fuel Taxation

Gasoline tax diversion is somewhat more common. There are two trends away from the exclusive dedication of all fuel tax receipts for state highway purposes. The first covers the sharing provisions that have changed the agency for spending the funds on roads and on streets but have not disturbed the link between the receipts and highway outlays. By sharing with the localities, technically, there is no assignment for a state function.

Crawford has spoken of the sharing as follows:

Originally devised for the construction and maintenance of state highways, the proceeds from the gasoline tax were originally expended almost entirely for these purposes. Gradually other needs arose, and as the legislatures increased the amounts for local roads, city streets, for bond payments and for miscellaneous purposes, the percentage spent on state roads decreased. In 1927 over three-quarters of the total amount went for state roads; in 1935 this percentage had decreased to 42 per cent.³

The reference to miscellaneous purposes deals with the diversion discussed below in connection with the second trend.

In recent years the amounts of state gasoline tax yields spent by the localities on roads have shown no great variation. They constituted approximately 20 per cent of the gasoline tax revenues collected.

Crawford reports the following percentages in the years since 1927:⁴

| | | | |
|-----------|------|-----------|------|
| 1927..... | 21.0 | 1932..... | 18.3 |
| 1928..... | 18.8 | 1933..... | 21.4 |
| 1929..... | 19.7 | 1934..... | 21.1 |
| 1930..... | 19.4 | 1935..... | 20.2 |
| 1931..... | 18.6 | | |

³ Crawford, *op. cit.*, p. 28.

⁴ *Ibid.*, p. 29.

In view of the fact that other allocations of fuel tax yields have increased at the expense of state highway outlays, this relative stability obscures the increased outlays. Actual distributions to localities have increased from \$55,440,161 in 1927 to \$123,420,040 in 1935, while the corresponding dedications for state highways were \$182,095,503 and \$261,321,396, and the total collections for the same years, \$258,838,813 and \$610,444,734.⁵

The amounts distributed for urban roads have grown from 1.3 per cent in 1927 to 3.4 per cent in 1935, while allocated totals have increased in the same period from \$3,619,388 to \$20,855,123.

The universal method of sharing gasoline tax revenues with the localities is to allocate a stated percentage of the yields to the various jurisdictions. Not a single state appears to have adopted any other sharing device. Some states follow New York in allocating fixed percentages of actual yields of those taxes that are not general fund revenues to the state, the counties and other political subdivisions. Other states, including Alabama, Oklahoma, Texas, and Utah, dedicate a fixed number of cents per gallon of their total taxation of gasoline for state roads and apportion the remainder on the same basis.⁶

The differences between these allocation formulae are meaningless so far as financial results are concerned. The various levies are not independent but are arbitrarily divided units of a total state tax burden, expressed on a per gallon basis.

The second trend that is changing the character of gasoline tax assignments is the growing use of the motor fuel levy proceeds for purposes other than highway or street construction and maintenance. Financing of debt service charges on highway bonds may also be included. Table X, which Professor Crawford has prepared, shows the nature of the purposes (service on general purpose bonds is included), for which such payments are made. The table also shows the amounts spent in recent years. Included also are the total gasoline tax revenues collected—these are reported elsewhere in Crawford's study. The increased representation of non-highway expense items indicates a definite diversion trend. In this respect recent events are more significant than the trend towards allocating outlays to be made through the political subdivisions. None of the diverted funds is spent, directly or indirectly, by any agency for highway purposes. The local sharing frees the state of an assignment, but may not indicate any diversion.

⁵ New York Times, March 17, 1937.

⁶ "State Gasoline Taxation as of Oct. 1, 1935," prepared by Willard Hogan. *Tax Systems of the World*, op. cit., p. 151.

TABLE X

DISTRIBUTION OF GASOLINE-TAX FOR OTHER THAN STREET OR HIGHWAY PURPOSES—ALL STATES

| | 1930 | 1931 | 1932 | 1933 | 1934 | 1935 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| Aviation..... | \$43,771 | \$48,753 | \$34,810 | \$22,677 | \$49,955 | \$44,280 |
| Commerce and navigation..... | 90,000 | 90,000 | 90,000 | 135,000 | 90,000 | 90,000 |
| Conservation (oyster beds)..... | 75,000 | 75,000 | 75,000 | 75,000 | 75,000 | 75,000 |
| Education and public schools..... | 13,404,200 | 12,905,407 | 9,585,112 | 12,969,247 | 26,888,432 | 28,150,428 |
| Ferries..... | | | | 48,000 | 35,040 | 48,727 |
| Field and garden seed..... | | 928,570 | | | | |
| Gasoline inspection..... | | | | 172,909 | | |
| General funds..... | 4,912 | 885,624 | 18,078,692 | 7,831,640 | 43,959,286 | 57,184,330 |
| Harbors and Dock Board..... | 155,178 | 939,778 | 830,073 | 816,695 | 890,988 | 934,592 |
| Police, State Revenue Department and Highway Patrol..... | | 595,472 | | 354,199 | | |
| Metropolitan District Commission..... | | | 1,039,904 | | | |
| Motor Vehicle Department expenses..... | | 185,500 | | | | |
| Public Utilities Commission..... | 3,000 | | | | | |
| Referendum expense..... | | | 89,271 | | | |
| Relief..... | | 1,000,000 | 14,430,432 | 29,260,769 | 8,769,108 | 15,548,262 |
| Reserve fund..... | 19,880 | | | | | |
| Reserve for protested taxes..... | | | | 237,127 | | |
| Reserve for refunds..... | 61,334 | 50,000 | 50,000 | 50,000 | | |
| Rural credit bonds..... | | | | 1,408,669 | 1,907,078 | 2,242,176 |
| Sea wall..... | | 98,048 | | | | |
| State Highway office expense..... | 50,227 | | | | | |
| State Tax and Revenue Department..... | | 37,455 | 260,985 | | | |
| | | 242,694 | | | | |
| State Treasury Note Redemption..... | | | 1,727,166 | 11,128 | | |
| Counties' General Fund Parks..... | | | | | 903,396 | 987,652 |
| General fund bonds..... | | | | | 6,011,535 | 5,921,280 |
| State Departments..... | | | | | 46,638 | 12,382 |
| Irrigation..... | | | | | 3,730 | 4,106 |
| Prison camps..... | | | | | 2,225 | 2,998 |
| State collected gasoline tax..... | 13,907,302 | 18,081,201 | 46,289,444 | 53,488,050 | 89,630,408 | 111,246,201 |
| Total gasoline tax revenues — all purposes..... | 493,657,977 | 536,562,880 | 513,047,239 | 518,195,712 | 561,166,118 | 610,444,734 |

Diversion in 1927..... \$5,296,921; in 1928, \$7,860,516; in 1929, \$9,260,632.
 Total gasoline tax revenues, all purposes... \$268,338,813 \$304,871,766 \$431,311,519.

Source: Crawford, *op. cit.*, pp. 28, 33.

Fuel Tax Diversion

✓ Increase of the so-called diversions is not a clear victory for budgetary unity advocates. What has happened is that in most cases there has been an assignment to some other purpose for which no benefit relation exists. Only half of the gasoline tax diversions listed in 1935 were destined for general funds. The rest was for other assignments. New York allocated half of its 1935 gasoline tax yields, which were in excess of \$55,000,000, for general fund purposes and is therefore responsible for approximately half of the general fund distribution in the entire country.

It may be well at this point to discuss briefly the question of gasoline tax assignments for the financing of bonds issued for highway purposes. The fact that the statistics do not show separate assignments for state or local bonds for such purposes does not permit of a separate analysis.

There has been a rapid increase in the use of gasoline tax moneys for debt service charges. The percentages of total gasoline tax revenues allocated to this purpose and the actual distributions have been as follows:⁷

| | | Pct. |
|------|--------------|------|
| 1927 | \$10,086,456 | 3.8 |
| 1928 | 17,619,995 | 5.7 |
| 1929 | 23,371,785 | 5.4 |
| 1930 | 31,049,036 | 6.3 |
| 1931 | 44,450,058 | 8.2 |
| 1932 | 50,726,362 | 9.8 |
| 1933 | 61,235,394 | 11.8 |
| 1934 | 88,247,391 | 15.7 |
| 1935 | 93,601,974 | 15.3 |

Second in importance to the general fund link, which indicates the complete absence of any specific expenditure tie-up, is the dedication of the gasoline tax outlays for education. Crawford reports Georgia, Illinois, Ohio, and Texas devoting 16 $\frac{2}{3}$, 33 $\frac{1}{2}$, 25 and 25 per cent, respectively, of their motor fuel tax receipts to education. Such an earmarking is usually not temporary, as are the links to unemployment relief, the next important purpose.

✓ The assignment of gasoline tax revenues for debt service charges is a relatively new phenomenon. No such diversions for rural credit bonds are to be noted before 1933, while links to general fund bonds are not reported prior to 1934. It is evident from Crawford's classification that the bonds whose debt service is listed as diversions are not floated to supply funds for highway purposes. Evidently the credit of some jurisdictions is so poor that an important tax source must be assigned or pledged.

✓ A large proportion of state bond proceeds is for highway purposes.⁸ This factor and the rapid growth in the distribution of

⁷ *Ibid.*

⁸ The ratio of highway debts to total state debts in 1936 was estimated at 42.4%. Edna Trull, *op. cit.*, p. 28.

revenues for the servicing of the highway bonds introduce several important changes. ~~They indicate, first, that some mild form of diversion has taken place.~~ Even though the bonds have been ~~issued to defray highway expenditures,~~ it means that some gasoline tax receipts cannot be used for current highway expenditures until the bonds have been retired. Proceeds of bond issues is the determining factor.

Second, the practice denotes a change in ~~pay-as-you-go~~ policies. The normal assignment practice tends to encourage capital construction activities financed by current revenues. This does not conform to what is now considered to be the best timing, planning, and financing of public works activities. ~~It inhibits any adjustment of public works to cycle-smoothing policies and is, in general, inimical to cyclically adjusted fiscal policies.~~⁹ It is, therefore, possible that the assignment of the gasoline tax proceeds to bond service rather than to actual outlays or to reserves may herald a changed approach. Those who advocate complete assignment and who sympathize with cycle-smoothing efforts, should favor bonds rather than highway fund accumulations, since the latter have shown themselves vulnerable to raids and attacks.

A third element in the situation may be noted in connection with the assignment practices proper. Linking tax revenues to debt service charges creates a permanent dedication that remains in force until the bonds have been paid. Such an assignment is mandatory and has proved an obstacle in many states to efforts toward diversion. It is a reflection on a state's credit, when it must tie up specific revenues to satisfy bond purchasers, and an indication of needless complications when independent highway funds are created.

There is one element created by this phase of the new trend in motor fuel tax assignments that mitigates some of the disadvantages inherent in dedications. The expenditures for debt service charges represent a fixed contractual obligation which the states must meet. The states suffer no disadvantages in linking a stable and lucrative revenue source to such outlays unless they plan defaults.

Such assignment of gasoline tax revenues does not require independent funds and administration. It does not interfere greatly with fiscal planning. Furthermore, because they permit the states to indulge in a judicious use of public debts in relation to public works activities, highway bond assignments appear to be more justifiable than a direct assignment of current fuel tax yields for highway construction.

Other diversion destinations are relatively insignificant. The inclusion of the aviation category among the aided functions may be misleading, since this represents an assignment in all respects analogous to the motor vehicle highway link. Idaho and

⁹ J. M. Clark, *op. cit.*, *passim*. Also *Public Works Planning, op. cit.*, pp. 21-30.

Wyoming were noted in 1935 as dedicating the tax on fuel used in aircraft to airports and related purposes.¹⁰

The term "diversion" is correct only if the assignment of all gasoline tax receipts for highway and street functions is deemed to be necessary and legitimate. It is possible to argue that the general fund concept and budgetary unity are of great significance and that any assignment created for benefit or adequacy reasons should be labelled as a diversion. New York will be spending less than 50 per cent of its gasoline tax receipts on State highways, in the program outlined in the Governor's 1938 budget message. For this State it would appear that there is some basis for considering the gasoline tax as an accepted source of public revenue. The fact that the State does not set up an independent highway fund and simply appropriates moneys for highway purposes out of the general fund, in which there is a book account earmark to which the proceeds of the gasoline tax are allocated, indicates further that there is ground to believe that the State has accepted a fiscal policy not in keeping with the popular and strongly supported dedication philosophy.

The student who bases his conclusions on the general thought on the subject will find much to support the diversion technique and to indicate that the assignments of motor fuel taxes for highway purposes are not likely to be readily abandoned. A few states have been unfortunate in having the assignments frozen in the constitution. Crawford reports the following for Missouri:

In 1928 a constitutional amendment provided that the gasoline tax receipts should be used to pay for the cost of collection, the maintenance of the State Highway Department, the principal and interest on highway bonds, and the construction and maintenance of State highways. . . .¹¹

Minnesota has two constitutional provisions that will surely mean a retention of the assignment of all motor fuel tax revenues until another amendment can legalize diversion.¹²

Alabama and Kansas conclude the list of states with specific constitutional amendments prohibiting diversions.¹³

Reference has already been made to the discouragement of diversion embodied in the Hayden-Cartwright Act of 1934. Further federal pressure against a breakdown of the assignment practice may come in the near future. It is reported that the Chairman of the House Committee on Roads favors a federal law that would prohibit federal highway aid to states diverting motor vehicle or fuel tax funds.¹⁴

Another factor already mentioned which may militate against any efforts to use gasoline tax revenues for general purposes

¹⁰ "State Gasoline Taxation as of Oct. 1, 1935." *Tax Systems of the World*, op. cit., p. 151.

¹¹ Crawford, op. cit., p. 34.

¹² *Miss. Const.*, art. IX, XVI.

¹³ *Ala. Const.*, Amend XI, art. XX, §1; *Kans. Const.*, art. XI, §9.

¹⁴ *New York Times*, Feb. 15, 1937.

is the existence of constitutional provisions to the effect that no tax shall be imposed unless the object to which the proceeds are applied, is stated.¹⁵

These legal mandates, apart from encouraging assignments at the time when the levies are adopted, also prevent any change in already existing assignments. In reference to this, Crawford notes:

A number of attempts by legislatures to divert gas-tax moneys have been held by the Courts to run afoul of this constitutional limitation. Thus where the tax had originally been levied for highway purposes, it was held unconstitutional in South Dakota to appropriate some of the proceeds to set up a State-owned system of filling stations (White Eagle Oil Co. v. Gunderson 205 N. W. 614), or to purchase feed to carry citizens' livestock through the winter. (In re Opinion of the Judges, 210 N. W. 186; 240 N. W. 600.)¹⁶

The way in which the difficulty was overcome in connection with another diversion proposal in South Dakota was the repeal of the old levy and enactment of a new one in which the desired diversions were legalized. However, the process of amendment presents technical and procedural discouragements which should not be minimized.

Before turning to the assignments linked to other taxes, the contribution of all special state taxes levied on motor vehicle users to highway expenditures can be summarized. The Bureau of Public Roads of the Department of Agriculture reported that in 1935 motor vehicle taxes and fees yielded \$318,748,000, gasoline taxes \$619,802,000, and special levies on motor carriers \$12,421,000, a total of \$950,971,000. The extent of dedication to road construction and maintenance can be gathered from the statement that of this amount over 4/5ths, or \$761,533,000, was allocated for highway purposes, state highways receiving more than \$552,000,000 and local roads and streets in excess of \$238,000,000. The \$147,142,000 spent on non-highway purposes is reported by the same federal agency to have contributed \$86,658,000 to general funds, \$30,773,000 to education, and \$16,925,000 to relief, in 1935.¹⁷

The totals are impressive and indicate that the assignment of taxes on motor vehicle ownership and use will remain as a problem for some time. There is small prospect of removing this major threat to budgetary unity in the American states.

Payroll Tax Assignments

A new category of assigned levies, one that is likely to rival the motor vehicle and fuel taxes in universality, is represented by payroll taxes. By January 1, 1937 thirty-six commonwealths

¹⁵ See page 198.

¹⁶ Crawford, *op. cit.*, p. 35.

¹⁷ N. Y. Times, Nov. 18, 1936.

had approved unemployment compensation laws embodying specific taxes for the purpose of financing an unemployment compensation fund.¹⁸

Arkansas, Delaware, Florida, Georgia, Kansas, Missouri, Montana, Nebraska, Nevada, North Dakota, Washington, and Wyoming are the twelve States that had not provided approved plans at the date specified. Because of the losses to the state when it has no state fund contributions to credit against federal taxes, it is certain that the number with such provisions now includes all.

The assigned tax is one on payrolls paid by eligible employers. In some states there is also a dedicated tax on the employees in certain occupations.¹⁹ The revenues derived from these taxes are deposited by the states in the Federal Unemployment Trust Fund, where they are held in separate accounts to the credit of each state until requisitioned.

It is evident that the insurance element requires a specific dedication. This category of assigned taxes cannot be considered as an unessential benefit relationship that can be successfully assailed. So long as an insurance plan, rather than a broader general welfare scheme, is supported the assignments of the taxes will remain.

The budgetary phases of the dedication are excellent. Independent state funds, which are subject to raids and which confuse the budgetary systems of the states, are lacking. It is hoped that the states will not fail to stress adequately the assigned taxes in their informational summaries. The rates are state taxes and should be linked to the general budget program from which a picture of total state burdens should be obtained. The contribution to the federally held trust accounts is an adequate balancing outlay. The taxes have not been in force long enough for the states to have had an opportunity to demonstrate the manner in which they are to treat payroll and employee paid taxes in their budgetary programs and documents. New York's latest budget document makes no mention of the payroll contributions to be collected by it.

None of the other phases of the social security plans sponsored by the federal government require the imposition or dedication of any particular state taxes. Such assignments, found, and noted below in connection with the destination of assigned taxes, are motivated exclusively by state volition. Revenue adequacy rather than benefit relations appears to sponsor the dedications that are found.

Other Tax Assignments

The other taxes that are prominent in the state systems do not reveal the consistent assignment practices noted with respect to motor vehicle or payroll taxes. It is evident that only rarely

¹⁸ Social Security Board, *Analysis of State Unemployment Compensation Laws; Jan. 1, 1937*, (Washington, 1937), p. 1.

¹⁹ Alabama, California, Idaho, Indiana, Kentucky, Louisiana, Massachusetts, New Hampshire, New Jersey, Oregon, and Rhode Island, are among the states with approved plans reported having such levies. *Ibid.*, pp. 2-23.

can a significant benefit relation be established for the taxes discussed below.

The property taxes, as has been noted, are responsible for a constantly decreasing percentage of total state revenues. A considerable portion of the funds still collected is available for state general funds. In many cases special mill levies for specific purposes are considered separate from the regular state tax rate levied to finance general expenditures, a rate that varies periodically according to current needs. This accounts for the fact that a state may show both assigned and unassigned yields from property taxes. Since the same or different jurisdictions may levy many taxes on the same base, the property tax, which is levied for general state purposes, may remain a general fund source. A similar status was noted in connection with gasoline taxes. For some other taxes the assignment would change the status of the tax as a whole. The maintenance of institutions of various sorts appears to be the most common purpose for which special state rates are still imposed. Education, in addition to benefiting from special mill levies, is the largest recipient of general property tax yields derived from percentages of "general purpose" levies. Sinking funds also receive property tax revenues.

It is difficult to identify real property tax yields on a benefit basis with any but improvement expenditures. It is even less probable that non-property tax burdens can be linked on a benefit basis to the purposes for which they may be assigned. No grave injustices would result if the assignments of state property taxes were abolished. It is, however, unreasonable to assume that the traditional practices will be discontinued. The dedications will probably last as long as the property tax continues to be levied for state purposes.

In the case of the personal net income tax, a number of specific assignments are found. The most common destination of such dedicated revenues is for school funds and for unemployment relief and property tax reduction funds. Charity fund and casual deficit fund assignments are also noted. Of the approximately 30 personal net income tax states on October 1, 1935, twelve, including Alabama, Arizona, California, Idaho, Mississippi, Missouri, New York, North Carolina, Oregon, Virginia, Washington, and West Virginia assigned all income tax revenues for general state purposes.²⁰

An unusually large number of the dedications of state shares are of fixed sums. It has been noted that this assignment device tends to place a severe element of uncertainty upon the activities to be financed out of the margin between the assigned revenue and total collected. For example, Minnesota deducts a fixed amount of certain tax collections for the State Board of Education and retains the remainder for general purposes.

²⁰ "Status of Personal Net Income Tax Laws, State and Federal, as of Oct. 1, 1935," prepared by V. G. Morrison, Univ. of Tennessee. *Tax Systems of the World, op. cit.*, pp. 122-123.

The practice of assigning a personal income tax yield cannot be defended on any grounds. The tax is hardly capable of being fitted into a benefit relation to any specific state function. It is the outstanding example of a tax based on general ability to pay, and levying it on a particular group in the community, because of benefits received by that class, can never be justly advocated.

With respect to the two other most popular purposes, the personal income tax seems equally unsuited for assignment devices. The tax is notoriously unstable in its yield and should not be dedicated to such a function as education or relief, where stability and a depression revenue peak are required. It is also wrong to treat the personal income tax as a temporary levy, assigned only to be abandoned when the expenditure need expires. Such a fate should be reserved, if at all, for sales taxes and nuisance levies. It is probable that the relative ease of revising rate structures on a given tax base is responsible for some share of the interest in the assignment of the income tax, in spite of the disadvantages outlined above.

The corporate income taxes may be classified according to whether the states retain, for general purposes, all of the proceeds (after shares have been distributed to the localities) or whether a residue is assigned to specific purposes.

In 1935 California, Connecticut, Georgia, Mississippi, Missouri, North Carolina, South Carolina, Tennessee, Vermont, and Virginia were included in the first group.²¹

A few states, such as Arkansas, Idaho, Kansas, North Dakota, and Oklahoma, may be included in this category, since the assignments consist of only insignificant sums for administrative costs and for refunds, which are common in the collection of self-assessed income tax liabilities. The dedication of \$25,000 for refunds, as in Kansas, or the retention of 3 per cent for administration and 2 per cent for refunds, as in Oklahoma, represents merely an indirect manner of appropriating sums for reasonable administration costs. In this way a method of allocating net proceeds of gross receipts to the general fund is derived.

With respect to the assignments that are made with the proceeds of this tax, a variety of methods and destinations are noted. A few examples will serve to indicate the various destinations of the yield of corporate income taxes.

Alabama dedicates the receipts of its tax on the net income of domestic and foreign corporations to the payment of debt service charges on state debt and dedicates any remainder to reduction of the ad valorem state tax on real property. A similar arrangement is found in Arkansas and Idaho; in both cases varying proportions of the proceeds are used for reducing state property levies.

²¹ "Corporation Taxes Based on Net Income as of Oct. 1, 1935," prepared by J. Roy Blough, Univ. of Cincinnati. *Tax Systems of the World, op. cit.*, pp. 128-129.

The Arkansas provision dedicates the remainder for property tax reduction only after two dedications for charity and education have been made.

Iowa has a rather complicated system outlined in the following provisions: 3 per cent to General State Fund for administration; during 1934, \$3,000,000 to State Emergency Relief Fund; 1935 and thereafter, \$500,000 to General Fund to reduce State property tax; balance remitted to taxing districts and credited on property tax bills in proportion to property assessment.²²

Reference will be made to Louisiana's tax and its link to property tax relief and to schools. In connection with the corporate net income tax, it is possible that difficulties due to cycle-sensitivity and estimating might militate against its use for assignments. If the dedicated amounts are lower than the range of the fluctuations, the function financed by the assignment is protected. On the other hand, the general fund share may be unduly unstable.

General and special sales taxes are very popularly associated with assignment practices. They are usually imposed for a limited period, and thus it is natural that the yields should be linked to a transitory or exceptional need.

There is, furthermore, usually a great deal of opposition against these regressive levies to be overcome, and assigning the revenue to a function such as relief facilitates its introduction into the tax system. During 1935, when the general sales tax reached the peak of its popularity, most of the assignments noted were for relief purposes. Arizona, Idaho, Illinois, Iowa, Missouri, Ohio, and Utah dedicated all or part of the general sales taxes in force on Oct. 1, 1935 to various types of relief funds.²³ Education is the next most common destination of the assigned levies. Old age pensions and property tax relief are also represented. It is possible that relief assignments are largely affected by the decline in sales tax popularity. It cannot be denied that the assignment device may have aided in giving the tax a temporary lease of life.

Chief among the specific sales taxes or excises are the liquor and tobacco and cigarette levies. For the first, the usual practice is to retain for state purposes and to turn over to the general fund the proceeds of the tax. However, not a few states link the beverage taxes to education, relief, and to social security functions.

In connection with tobacco and cigarette taxes a few examples of unhampered collections for the general fund are noted. In the other states levying such taxes, the usual complicated arrangements with respect to specific funds are to be found. Pensions for Confederate soldiers and unemployment relief appear to be frequent applications.

²² *Ibid.*

²³ "Status of State General Sales Taxes as of Oct. 1, 1935," prepared by Neil H. Jacoby, Dept. of Finance, Illinois. *Tax Systems of the World, op. cit.*, pp. 136-139.

✓Summary: Assigned Taxes

(Inheritance, poll, severance taxes, and probably almost every other type of tax imposed by the states are assigned. Together with the levies already mentioned, they are responsible for a wide breakdown of budgetary unity. Except for motor vehicle, motor fuel, and payroll taxes, no lasting benefit justification or effective coercive motive can be cited.) (The study of state assignments by jurisdictions will indicate that some states can successfully operate without complicating their financial systems with unnecessary tax dedications.) It is important that more endeavor to do so.)

CHAPTER XVIII

STATE ACTIVITIES FINANCED BY ASSIGNED TAX YIELDS

A survey of state assignment policies indicates that (only two of the most popular destinations, namely, highways and social security, can be traced to necessary and inherent tax factors. It will be recalled also that these two functions are responsible for many of the examples of assignments found in the national governments.)

✓ Highways

It should be kept in mind that jurisdictions are able to function without setting up independent funds and, in some cases, without a complete dedication of motor vehicle and fuel levies, as exemplified by the practice of the federal government and that of New York State. Nevertheless, for the present, the assignment of specific tax yields for highway purposes must be accepted. There are legal bases and reasons of tradition explaining the retention of highway funds. Many also find social and economic factors in favor of supporting the assignments. Their contributions to the impairment of budgetary comprehensiveness and unity can be minimized. Logical reasons are lacking for maintaining highway funds which operate with fiscal year periods differing from that of the general budget. Equally the setting up of agencies that independently collect, segregate, spend, and report money disbursed, does not appear to be essential. The need for coordinating and planning all public works activities, of which highway maintenance and construction is such an important part, militates against the separation of highway expenditures from other capital outlays. Certainly the growth of diversion indicates that there is no lasting need for setting up an agency to which all motor fuel and vehicle tax yields shall be allocated. Even if the states do not choose, or are unable, to follow New York in limiting the highway purpose dedications of its automotive levies, they can profitably copy New York's methods of administering the dedicated revenues. Highway funds are not self-balancing categories for which independent funds are essential.

✓ Social Security

A new category of assignments—those for social security—will probably in time equal highway dedications in frequency, if not in the magnitude of the funds involved. The unemployment insurance benefits of the social security program have already been noted in this connection. The basic justification for the dedication has also been emphasized. There are, however, many states that earmark tax yields for old age assistance, public health work, aid to dependent children, aid to the blind, maternal

and child health, services for crippled children, and child welfare services. These are the functions, other than unemployment compensation, covered by the social security program as outlined in the Social Security Act.¹

The basis for federal aid for public assistance in the fields administered by the Social Security Board is the provision by the federal government of funds for three of the functions, proportional to the amounts that the states provide for distribution to needy individuals. These grants are increased by allowances to help meet the administrative expenses of the states in connection with the stated functions. For old-age assistance and aid to the blind, matching up to certain limits is called for. In the case of dependent children, the federal government will contribute one-third of the total expenditure of the state program up to stated maxima. There is nothing in the Social Security Act or in the manner in which the program is administered that requires or encourages the states to dedicate the revenues of particular taxes for the purpose of providing state shares of the program. There are no insurance or other cost allocations that imply benefit relationships. There is little justification for any assignments.

In November, 1936 there were forty state plans for old-age assistance.² The sources of state funds indicate the widespread practice of assigning specific revenues instead of allocating general fund revenues through the medium of periodic appropriations. The states that dedicate specific revenues and the levies that they assign in part or in whole are noted below:

TABLE XI
STATE TAXES ASSIGNED FOR OLD-AGE ASSISTANCE PAYMENTS

| | |
|--------------------|---|
| Arkansas..... | Taxes on chewing gum, slot machines, horse racing and a portion of sales tax revenues. |
| Colorado..... | Taxes and license fees on retail sales, intoxicating liquors and beer, and inheritance. |
| Connecticut..... | Poll tax. |
| Idaho..... | Retail sales tax and license fees (assigned to Emergency Relief Fund from which appropriations are made). |
| Iowa..... | Poll tax. |
| Louisiana..... | Franchise tax on corporations and luxury tax. |
| Maryland..... | Taxes on beer, corporation franchises, distilled spirits, admissions, toilet articles and cosmetics. |
| Massachusetts..... | Licenses and permit fees on intoxicating and certain non-intoxicating beverages. |
| Missouri..... | Retail sales tax. |
| Montana..... | Taxes on liquors, beer, incomes, telegraph, electricity and natural gas business, and inheritances (assigned to relief funds from which appropriations are made). |

¹ 49 Stat. 620 (1935).

² Social Security Board, *Characteristics of State Plans for Old Age Assistance*, (Washington, 1936), *passim*.

| | |
|-------------------|--|
| Nebraska..... | Gasoline and poll taxes. |
| New Mexico..... | Excise tax on liquor and franchise tax on corporations (assigned to State Relief Fund from which appropriations are made). |
| North Dakota..... | Retail sales tax and property tax specific mill levy. |
| Ohio..... | Liquor tax. |
| Oklahoma..... | Consumers tax and motor vehicle excise tax (assigned to State Assistance Fund from which appropriations are made). |
| South Dakota..... | Liquor tax. |
| Texas..... | Proceeds of liquor and beer stamps. |
| Utah..... | Licenses and taxes on retail sales and amusements (assigned to Emergency Relief Fund from which appropriations are made). |

Source *Ibid.*, pp. 1A-11A.

Twenty-two states have made no other provision than appropriating funds or noting the general fund as the source of the particular state's share. In addition to assigning tax revenues, many of the states have proceeded to set up specific-use funds to allocate the service to existing independent funds and to perpetuate for this purpose some of the emergency and transitory funds. Why the states should permanently link the revenues of taxes on chewing gum, or inheritances, or intoxicating beverages, or luxuries, or natural gas or retail sales, and others, to the old-age assistance outlays is understandable only in terms of an outmoded and useless philosophy of taxation.

New York and all the other units that appropriate general fund revenues are to be singled out for praise in this matter. The budgetary unity of these states is not disturbed because of an uncalled for translation of temporary legislative association of a new function and a needed revenue source into a permanent assignment.

The sums involved in contributions to finance state plans for aid to dependent children are smaller than those needed for old-age benefits. As a result, of the twenty-two state schemes reported by the Social Security Board in November, 1936, many have made no assignments.³ Others, including Arkansas, Colorado, Idaho, Louisiana, Maryland and Nebraska, dedicate revenues from the same sources noted in connection with the old-age assistance assignments. Most of the states indulging in assignments evidently made the dedications for the social security program, other than unemployment insurance, as a whole. Arizona, not listed as providing old-age assistance, assigns the yields of the State luxury tax on liquors, tobacco, cosmetics, playing cards, films, and mechanical games to child welfare. California, Delaware, Maine, Massachusetts, New Hampshire, New Jersey, Ohio, Oklahoma, Pennsylvania, Vermont, and Wisconsin have plans for aiding dependent children that call for specific revenue sources. New York was among the commonwealths having no approved plan reported by the Social Security Board.

³ Social Security Board, *Characteristics of State Plans for Aid to Dependent Children*, (Washington, 1936), *passim*.

The state schemes for aid to the blind reveal approximately the same arrangements as are noted in the other phases of the program.* Somewhat less than half of the twenty-six states whose plans are reported provide for dedicated revenues. These are almost always the same as those reported for the other two phases of the program in which no federal coercion towards a benefit tax is found.

While it is unfortunate that the social security program has contributed to the growth of tax assignment practices, some of the evils linked to independent funds appear to have been avoided. Equally the outlays do not necessarily vary with tax yields as a primary factor in their magnitude. The total outlays involved are also not of great importance. On the other hand, these assignments are basically unessential and there are actual and potential disadvantages. Unified planning and control reporting is hampered. Tax laws will not vary in terms of broad economic and fiscal needs, but will be considered in relation to the outlays to which they are dedicated. Undesirable taxes are perpetuated. The benefits inherent in budgetary unity are largely lost.

Education

The wide variety of taxes and assignment devices linked to educational activities of the state governments, ranks education with the most important non-benefit dedication destinations. It will be noted that the financing of education is the greatest single object of governmental cost in state governments, and that education ranks next in importance to highways in the magnitude of the state tax moneys withheld from the general funds.

An interesting study has been prepared showing "State taxes all or a part of whose proceeds are allocated to the support of public elementary and secondary schools, and institutions of higher learning."⁵

The table prepared lists only those taxes that all or in part are earmarked for educational purposes. It is, of course, understood that many general fund appropriations are made for education. (It will be noted that this is not a common practice with respect to the highway funds. Other than federal aid and loans, the state highway funds receive few revenues from sources other than the motor vehicle and fuel taxes assigned to them.) The table indicates the disposition of property, income, sales, severance, inheritance, and poll tax yields for education financing. The proceeds of chain store levies, retail license fees, corporate franchise taxes, taxes on registration of motor vehicles, liquor

* Social Security Board, *Characteristics of State Plans for Aid to the Blind*. (Washington, 1936), *passim*.

⁵ "Education and Its Public Financing in the United States," as of Oct. 1, 1935," prepared by W. C. Carr, National Education Assoc. *Tax Systems of the World*, *op. cit.*, pp. 227-230.

levies, insurance taxes, public utilities taxes, bank taxes, and others, are similarly dedicated.

Twenty-five states out of the total of 39 listed as levying property taxes for state purposes tie up the proceeds for the financing of education.

In some cases the millage is fixed; in others it varies according to the rate needed to raise sufficient funds. For instance, Alabama is noted as levying a 3-mill levy on general property for the State Public School Fund, while Indiana is reported as dedicating a millage sufficient to raise the amount needed to provide for the State's liability to the teacher's retirement system. Some states have a fixed millage and variable levy which provides for funds for several educational activities. The complexity of the property tax links to education is greater than perhaps any other non-benefit dedication to state finances. Unless these assignments are perpetuated by substituting other dedications for property tax reduction assignments, the decline of that levy will aid in eliminating another needless impairment of state budgetary unity.

The frequency of income tax assignments for education, relative to the number of states having such taxes, is less than that of property taxes. This is understandable because of the fewer benefit notions linked to that tax because of its relative newness. Possibly states that levy income taxes may be presumed to be somewhat more advanced and progressive in their notions of taxation. Nevertheless, of some 40 taxes measured by income in the states in 1935, twelve, including Arkansas, Delaware, Louisiana, Minnesota, Montana, New Mexico, South Carolina, South Dakota, Utah, Vermont, Washington, and Wisconsin assigned all or part of the yields to education. Because of the variability of revenues from income taxes, it is of interest to note some of the formulae for dedicating proceeds. Arkansas, South Carolina, and Vermont assure adequacy of funds for educational needs by assigning a specific amount. As a lien on the yields, the school funds probably bear no incidence of any sharp falling off of yields. Louisiana and Massachusetts do not rely on total yields or some percentage thereof, as do the other states in the group. They dedicate an amount that is determined by educational needs and not by yields. During the depression some of the school administrators probably wished they had a more stable revenue source than the personal income tax.

Sales taxes are very popular means of education financing. The yields of the special sales taxes on particular commodities or services, rather than the general sales taxes, are dedicated. The nature of the tax base indicates the choice of stable revenue measures for the public financing of education. Tobacco, electrical energy, beer, gasoline, gross sales of chain stores, alcoholic beverages, cotton futures, and non-intoxicating liquors are among the objects of sales taxation. The Idaho retail sales tax and the New Mexico gross receipts tax represent two of the few instances in which a general gross receipts levy is dedicated for school purposes.

In Alabama and several other states a few sales taxes have been dedicated assuring some further stability of revenues. The tobacco and alcohol taxes in particular have displayed minor degrees of cycle-sensitivity so that one may assume a shifting to the general fund of unstable elements which in those states undoubtedly finance only a negligible share of the total revenues. The methods of allocating portions of the proceeds vary. In Alabama complete allocation of the three dedicated levies was noted.

In Arkansas three funds segregating expenditures for different educational purposes share in varying proportions the proceeds of two tobacco taxes. The State's Common School Fund has the most stable yield through a fixed appropriation of \$750,000. The institutions of higher learning receive one cent of the tax on each package of cigarettess while the Educational Equalization Fund receives the balance. There is no doubt that the percentages and the various schemes were not conceived in terms of any degree of remoteness or nearness to fixed and stable sources. The absolute amounts involved are small but they loom large in proportion to the state expenditures and the cost of the specific functions.

Among the interesting types of assignment devices found in the Illinois retail sales tax law are those levied in connection with a property tax reduction scheme. In that State it is indicated that the State Common School Fund receives an amount equal to 1/12 of the State school appropriation formerly derived from property tax proceeds. The University of Illinois fund receives 1/12 of the amount that would be raised by the 1/3 mill property tax. In this case we find linked two fairly stable revenue taxes although there is undoubtedly a considerable degree of variability.

Louisiana, in addition to the property, income, alcoholic beverages, cotton futures, and several other tax assignments already noted, dedicates portions of the proceeds of gasoline and gross receipts of public utilities levies for schools. In Tennessee several tobacco levies are linked to five educational funds, four of which receive specific amounts, the general State School Fund receiving the balance. In West Virginia a 2 per cent sales tax is dedicated entirely for school purposes. Funds are assigned to the State General Fund and earmarked for schools.

Among the further taxes that have been dedicated for education, are severance levies in the mining or oil-producing states, such as Arkansas, Idaho, Louisiana, Minnesota, and Montana. The usual complicated and variable allocation methods are found.

In connection with inheritance taxes there are only a few instances of dedication for educational purposes. Colorado applies only an insignificant portion of total proceeds, namely, 5 per cent, to the Teachers Permanent Retirement Fund. It should be noted that the percentage, even though low, gives no indication of the fact that there will be any stability or adequacy of yield. In connection with Michigan's assignment of its inheritance tax, a somewhat interesting combination of a stable and a doubtful assignment is noted. The portion of the proceeds allocated to schools

is indicated as the "amount needed to pay interest on educational funds, also any balance after taking care of principal and interest on payments of State indebtedness." Certain specific needs are met in their entirety, and an added undetermined amount is assigned after proceeds are allocated for another purpose.

Ranking even above the property tax in respect to its inherent stability is the poll tax. Several states levy such taxes and assign the proceeds for schools. In Georgia the constitutional poll tax, in a sense, is earmarked for schools but is paid into the State General Fund. A law exists requiring the allocation of 50 per cent of the revenues in the State General Fund for school purposes. This is not as undesirable as the usual assignment, but it nevertheless destroys any possibility of legislative discretion and probably imposes elements of rigidity that lead to financing difficulties.

Concluding the cursory study of education financing assignment, it should be noted that only a few of the many taxes levied have been mentioned. Almost every major tax is dedicated in some states, according to one of many schemes, for school purposes. There is no conceivable benefit relationship in any of these taxes, other perhaps than the property tax in which there is some direct link to local educational facilities. Evidently the states have at one time set a precedent or have followed statutory requirements, or have continued to tie up, without motive or reason, the various tax yields that they intend to be used for educational purposes. On the ground of the importance of the expenditure, no effort to criticize the attempt to assure adequate yields is made. On the contrary, it is obvious that in many cases the school funds have been assigned yields that will display a lesser degree of stability and are subject to graver estimating difficulties than are the general fund and certain other funds. Almost every school fund encountered difficulties that were not met to a similar degree by the highway funds. Theoretically this was not unexpected. The assignments which were widespread did not prevent education from being sorely hit during the depression.

Debt Service, Relief and Property Tax Reduction

Debt service, property tax reduction, and unemployment relief represent the other most popular application of the assigned proceeds of state funds. The other functions financed by earmarked funds are too numerous to enumerate; they cover the complete list of those carried out by state governments. Some indication of the variety will be gained in the survey by states, which follows. Another view may be gained by referring to the activities financed by diverted gasoline tax revenues.

The assignments for debt service need no elaboration. Either the resources of the borrowing agency (as in the case of a highway fund) or the impaired credit of the general fund have been responsible for tying up some revenue source for this pur-

pose. The desire for revenue adequacy has been foremost. The same motive plays some rôle in connection with unemployment relief assignments. For this function it is evident that a contributing cause has been a desire to aid in preventing a permanent retention of the newly introduced taxes whose proceeds are dedicated for relief. These two functions have not been responsible for the creation of independent agencies operating outside the budgetary system, nor have they been responsible for any major share of the economic and financial difficulties that may be associated with the practice of assigning state taxes.

Property tax reduction assignment is an unfortunate extension of the dedication philosophy that pervaded much of the property levy era of state taxation. The assignments are twofold. First, the proceeds of many new taxes, usually the income variety, are segregated into funds that are not available for general state purposes. The moneys must be used to decrease the amount to be raised by the property tax levy which normally would be a balancing factor. In other words, the proceeds of the dedicated taxes do not increase the state's revenues beyond any excess of property tax yields that they replace. A second dedication grows out of the requirement that the assigned yields be used for specific purposes previously financed by earmarked property tax proceeds.

In some cases a new destination is created by some further development of the property tax relief movement which is responsible for all these needless complications of state finances. In Louisiana, for example, a property tax relief drive, culminating in a constitutional amendment, created a complex situation. The proceeds of the taxes on alcoholic beverages, corporate and individual income, and the license tax on the sale and delivery of cotton futures are assigned to the State Property Tax Relief Fund. In addition to replacing the property tax levies in their link to state support of education, the moneys are earmarked for payments to the localities to reimburse them for losses sustained through homestead exemptions.*

Difficulties are bound to arise if the yields of the assigned revenues, which must be relatively unstable, are poorly estimated. In general, the property tax reduction dedications are another example of needless impairments of state budgetary unity.

It is understandable that states steeped in the assignment tradition did not endeavor to finance unemployment relief needs through the medium of their general funds, since the moneys needed were usually of amounts that required one or more new revenue sources. To gain the approval of the public for new and burdensome taxes during a depression, a link to such a lofty yet transitory function as unemployment relief must have been of invaluable assistance.

* C. H. Knight, *The Effect of the Proposed Homestead Exemption on Assessed Value and Revenue Receipts of Various Units of the State of Alabama*, Univ. of Alabama, pp. 28-29, quoted in *Homestead Exemptions and Constitutional State-Wide Over-All Debt Limitations*, unpublished study by T. J. Reynolds, p. 24.

There is evidence, indicated elsewhere, that the federal authorities used their influence to have states prove their willingness to provide their shares by assigning important taxes. Income taxes, sales taxes, and levies on the newly legalized consumption of alcoholic beverages were popular for assignment purposes. A large variety of special funds was created. Many of these funds are still in force; some have been given new functions, and others have been linked to the newer social security plans and have become associated with all welfare outlays. The federal contribution system is unsettled and, in general, the entire financing of relief appears to have been a changing and often chaotic process. It is difficult to appraise the advantages that the states will derive from failing to consider unemployment relief, outside the established systems of compensation, as a regular expenditure category. It is less difficult to measure the needless confusion that will be actual or potential as long as unemployment relief is not worked into the framework of the regular finances. To link such outlays to cycle-sensitive levies is to invite disaster. The magnitude of the expenditures required is great in the jurisdictions that undertake to bear portions of the burdens commensurate with their ability to pay. If such a function is divorced from the general finances a major threat to budgetary unity will result. In a recovery period, some of the excusable errors of the depression period should be corrected. This will mean the elimination of undesirable taxes now retained because their yields are needed to finance relief. It implies also that the tax reforms will be of a more permanent and beneficial nature. Where the function has not been treated as a general fund activity, fiscal crises, special fund raids, and uncertainty regarding taxes and appropriations have been the most severe.

✓ Summary

(No purpose is achieved by pursuing further the analysis of the taxes and the functions that are linked through assignments. Particular circumstances and legislative whims have contributed to an array of dedications that defy classification according to any reasonable criteria.)

It is advisable, however, to view the status of the earmarking practices in terms of the jurisdictions proper. It will be possible to note how the states have linked the taxes in force at a particular time to stated outlays and how the general fund concept is comprehended. The absence of a chapter dealing with multiple budgets and self-balancing categories in American state finances has led to the occasional mention of non-tax revenue dedications in the discussion that follows.⁷

⁷ The data in the following chapter are based on surveys prepared in 1935 and corrected and checked early in 1936. For this reason, payroll tax dedications and many other assignments are not listed. Any discrepancies between the state surveys and the material already presented may be explained by noting the different time periods covered.

CHAPTER XIX

TAX ASSIGNMENTS AND BUDGETARY UNITY IN STATE FINANCES

Limited Assignment States

(A survey of the tax assignments in the various states reveals that, in addition to New York, only Kentucky, Maine, Massachusetts, and Virginia have refrained from specifically dedicating the yields of any important taxes other than automotive levies. These five Commonwealths may be mentioned as exceptional in their attitude towards this problem. The presence of Southern states in this small group is noteworthy.

Kentucky

Under its new leadership the State of Kentucky has refrained from enlarging the scope of its assignments outside the usually dedicated motor vehicle taxes.¹ There appears to be no other fiscally important tax dedicated for a specific purpose. The usual minor fee retention by the departments from receipts for services rendered by them is noted. The assignment of non-tax revenues also appears to be minimized. There is an indication that the Kentucky budget carries only such assignments as exist within the framework of its regular budgetary procedure, and that no specific-use funds are set up.

Maine

In Maine the recommendation made in the National Institute of Public Administration survey report of 1930 regarding the abolition of special funds has borne fruit. The recommendation was as follows:

In order to facilitate the budgeting of state requirements, it is suggested that a number of special expendable funds be eliminated as rapidly as possible. This will allow the moneys now segregated in these special funds to be pooled in the general fund, thus producing a greater reserve to draw upon than exists at the present time.²

The multiple fund system was complicated by the fact that the important highway activities segregated in the account of the State Highway Commission operated on a calendar year basis. This differs from the budget period of the State's general services. The 1931 budget reforms brought about the elimina-

¹ See Rodman Sullivan, "Kentucky's New Revenue Program," *Tax Magazine*, Vol. 14, No. 8, Aug. 1936, p. 465.

² Institute of Public Administration, *Maine Survey*, *op. cit.*, p. 58.

tion of all funds except the legally required sinking and trust funds and those linked to a segregation of federal aid moneys.³

A few assignments exist but these are carried in special accounts in the General Fund. The practice, as has been noted elsewhere, tends to discourage assignments since elements of individual political control of special funds are eliminated. A unified approach to the state's financial activities has been made more practicable.

Massachusetts

Massachusetts, in addition to its dedication of gasoline tax and motor registration fees, assigns only a portion of its beverage and pari-mutual tax for the benefit of the old-age assistance fund. The bulk of the appropriations of the latter two taxes is still subject to general appropriation by the legislature. Massachusetts sets up a specific-use fund for its dedicated revenues, but the budget document indicates that these are considered in connection with the general fund.

Virginia

In Virginia there has been a conscious effort on the part of the State administration to abolish all special funds and convert all revenues into the general fund of the State Treasury. Outside of the automotive levies only the poll tax appears to be assigned to a specific purpose. A State budget official's comments show an enlightened attitude towards the problem.

Unless otherwise assigned, all revenues are applied to the general fund. Of the proceeds of taxes retained by the State those from the motor vehicle license tax and the fuel tax are assigned for the construction, maintenance and repair of highways and bridges. The budget carries a list of minor revenues collected by State agencies which are retained for their own use. All assignments appear as regular budget items. The budget policy has been to abolish as far as possible, all special funds and convert all revenues into the general fund of the treasury.⁴

New York

New York has shown no desire to dedicate its revenues for specific purposes. It has engaged in the practice only where the revenues were insignificant, or where the coercive, influence of federal aid provisions has been felt. There are only three minor non-highway assignments. The economic and political elements involved are not difficult to recognize. The assignment,

³ The abolition of the assignments is noted in Me. Laws (1931), C. 216, §12, entitled "State Funds Eliminated":

The commissioner of finance, with the approval of the governor and council, shall have authority, unless the legislature shall otherwise direct, to discontinue any or all of the special expendable state funds with the exception of the sinking funds and trust funds, and to merge the balance or balances of such fund or funds so discontinued with the general fund. The state controller shall set up and maintain special accounts in the general fund with respect to moneys received for designated purposes from the federal government.

⁴ *Budget System of Virginia*, unpublished survey prepared for the writer by J. H. Bradford, Director, Division of the Budget, Richmond, May 1934, pp. 2-3.

for volunteer firemen maintenance, of a share of the foreign fire insurance company premium tax represents a rather widespread device found in connection with the retaliatory practices featured in state insurance taxation. The milk tax is linked to an economic stimulation scheme for the dairy industry. Its yields are undoubtedly revenues assigned in order to prevent the introduction of the expenditure and the taxes as permanent elements in the State system. This is one of the few examples of a state-sponsored economic program calling for a tax dedication. Similar milk schemes are reported in Michigan and Rhode Island. Florida has such a plan involving citrus fruits.⁵

The reason for a dedication of a specific share of the race track admission tax for agricultural assistance is the least evident. As has already been noted, the category of the relatively unimportant funds not paid into the treasury and not appropriated by the legislature includes a number of instances of minor assigned fees and other non-tax receipts.⁶

In 1936 the recommended appropriations aggregated a grand total for all purposes of \$331,314,773 from general fund revenues, compared with appropriations of \$22,647,525 from the special funds (i.e., prison capital fund, hospital capital fund, military record fund). In general it may be stated that New York State has neither a developed assignment nor a specific-fund system, and that it ranks foremost among the states in its maintenance of budgetary unity through avoidance of assignments and individual funds. There has never arisen in New York a situation in which there was a lack of available funds for one statutory function while others enjoyed adequate receipts. Expenditures must be directly traced to legislative intent, since the general fund has at all times been able, through tax receipts or borrowing, to carry the burden of appropriated expenditures.

This list of states that have had relative success in maintaining a unitary budget system unimpaired by excessive tax assignments, is indeed small. It indicates the extent to which the problem is aggravated in the American commonwealths. Where the major taxes of a non-benefit nature are directed into the general fund, there still remains a considerable margin of toleration of minor funds. In all cases there is no reason why the abolition of most of the specific-use funds and the enlargement of the general fund should not be carried out.

States Featuring Numerous Assignments

A survey of the remaining states will not be out of order at this time.

⁵ *Facing the Tax Problem*, op. cit., p. 552.

⁶ See Schedule 10, *New York State Executive Budget for 1937-38*.

Alabama

Alabama ranks high in the list of states that have tied up the receipts of almost all their revenues. As is commonly the case the assignments have given rise to a number of independent and extra-budgetary accounts.⁷

In addition to tax receipts assigned, appropriations made from revenues collected by departments and institutions are omitted from the budget. A glance at the funds reveals that no economic basis or administrative or political policy could be achieved through the assignment policies. The important State funds, their dedicated revenue sources, and the sums involved are shown in this table prepared by Professor Alyea:

PUBLIC SCHOOL FUND REVENUES

Ad valorem Tax: 3 mills, plus proportionate land redemptions, sale of tax lands, and assignments of Tax certificates.

Poll Tax.

Fees, Issuance and Extinguishing of Teacher's Certificates.

16th Section Land Rent.

Escheats.

SPECIAL EDUCATIONAL, TRUST FUND REVENUES

Tobacco Tax.

Severance Taxes.

Hydro Electric Power Tax.

Store License Tax.

Railroad Gross Receipts Tax.

Telegraph Gross Receipts Tax.

Express Co. Gross Receipts Tax.

Pullman Co. Tax.

PENSION FUND REVENUES

Ad Valorem Tax: 1 Mill.

HIGHWAY DEPARTMENT REVENUES

Motor Carrier Mileage taxes.

Motor Vehicle Licenses.

Gasoline Excise Taxes.

Miscellaneous fees.

SPECIAL DEPARTMENTAL FUNDS

Alabama Public Service Commission.

Net revenue from Transportation Co., Utility, and Motor Carrier taxes, and Miscellaneous fees.

Agriculture and Industries: Main sources of revenue—Sale of fertilizer tags, registered fertilizer brands, fertilizer licenses, bulk fertilizer shipments, sale of feed stamps, registered feed brands, kerosene oil inspection tax, gasoline inspection tax, paint inspection tax, hay inspection tax, insecticide registered ginners permits, dairy licenses, warehouse permits, poultry inspection fees, nursery permits, nursery tags, seed testing fees, shipping paint inspection fees, potato inspection tags, and miscellaneous fees.

DEBT AMENDMENT FUND

Income Tax—sufficient to pay interest and sinking fund on these funding bonds, balance to general fund.

Trust Funds Revenue.

Financial Inst. Excise tax (redistributed to counties and to general fund).

Cereal Beverage Tax, Law Enforcement prohibition, and miscellaneous.

Revenue collected for (assigned to) counties. Sale of Tax lands, Assignment of Tax Cert., Corporation Franchise Tax, Carbonic Acid Gas Tax, Financial Inst., Excise Tax, one-third of Motor Carrier taxes under 1931 act, and one-half of gasoline excise tax.

⁷ See p. 119.

| | |
|--------------------------------------|------------------------|
| Net State Income, by funds, 1933-34: | |
| General | \$5,879,095.46 |
| Pension | 973,636.64 |
| Public School | 3,346,044.01 |
| Special Educational Trust | 2,689,937.03 |
| Highway | 6,856,737.07 |
| Agriculture and Industries | 308,689.54 |
| Other Special | 1,967,729.40 |
| Total | \$22,021,869.15 |

The total does not include taxes collected for counties.

Total State receipts \$29,622,901.55, the difference mainly Federal Aid.

(Prepared by Professor Paul E. Alyea, University of Alabama.)

While there should be little criticism of Alabama for a failure to include an item within the scope of its quadrennial review its inefficiency and inadequacy can in turn be traced specifically to the complicated assignment conditions here described. The assignment practice standards are matched by a similar degree of laxity in connection with the other budgetary procedures that are analyzed. There is probably a close link between all the various methodological and procedural elements. Possibly one defect breeds an attitude of toleration towards others.

Arizona

In Arizona a wide variety of tax assignments are noted. The State budget document lists a large number of special funds while the Code of State Laws designates specifically at least twenty such special funds outside the general fund. The funds are all arrayed in the budget for statistical purposes. One must appreciate the added expenses and difficulties that are involved through the extension of such conditions in a State of limited receipts and responsibilities.

Arkansas

Arkansas is another financially weak State that has had a sad experience with assigned revenues and funds. This State has the unique distinction of having been the only commonwealth to default on its own outstanding long-term debts during the recent depression. There is no doubt that a goodly share of its difficulties may be traced to the promiscuous tying-up of revenues for many purposes. The insufficiency of revenues assigned for certain functions, as well as the practice of raiding and shifting funds around, have meant inadequate support for many activities. The limelight of national interests falls naturally only on such functions as involve the monetary interest of those outside of the State and the bulk of the publicity has been accorded to the failure of the State to meet its debt service charges for some period. The plight of schools and libraries was less well known until conditions became intolerable. Relief inadequacies also were not nationally recognized until later. The failure of many other State functions to be carried out and the non-payment of salaries, bills and other expenses are of even more significance. A survey of legislation enacted between

1931-33 indicates the rather aimless experimentation with assignments and diversion of revenues from one fund to another. Among the many specific tax assignments recently noted were a 2 per cent sales tax, 65 per cent for the support of schools, 35 per cent for the general fund; a personal income tax, \$500,000 for the charity fund, \$750,000 for the common school equalization fund, the remainder to the general fund; a corporate income tax, the yields of which are divided like the personal tax, except that the balance is paid to a special fund for the reduction of the general property tax; the severance taxes on all natural resources except timber for personal use, $\frac{2}{3}$ to common school fund; cigarette and tobacco taxes, applied to the permanent building funds of educational institutions; an additional gasoline tax, 92.93 per cent to roads; 7.17 per cent to county roads; motor vehicle fees to the State's highway fund. There were many efforts to equalize the unfavorable distributions of revenues through inter-fund raids and shifts. In 1931 \$1,500,000 was transferred from the Highway Fund to the Agricultural Credit Board and \$300,000 of the same fund was transferred to the General Revenue Fund. Such devices were not successful in solving the difficulties. Finally in 1933 the State adopted the unique policy of tying up a portion of general fund revenues for particular purposes. It is evident that the multiple independently financed fund policy served the State no good purposes during the crisis years.⁸ It is of interest that the 1930 survey of the State budgetary system made by the Institute of Public Administration criticized the fund system and recommended its abolition.⁹ It is evident that a carrying out of the recommendations would have saved the State considerable difficulty.

California

In California an interesting enlargement of the scope of the usual highway dedication practice is found in connection with a gross receipts tax on highway transportation companies. One-half of the yield is dedicated to State highways.

⁸ Some indication of the various maneuvers and manipulations can be gained from the following depression period legislation. Ark. Acts (1931), acts 10, 18, 19, 51; *id.* (2d extra sess., 1932) act 15; *id.* (1933) acts 3, 6, 116, 136, 138.

⁹ Among the recommendations were: Section 12. *State Funds Eliminated.* The Commissioner of Finance, with the approval of the Governor, shall have authority on and after July 1, 1931, unless the General Assembly shall otherwise direct, to discontinue any or all special expendable state funds with the exception of sinking funds, trust funds, and pension funds, and to merge the balance or balances of such fund or funds so discontinued into the general revenue fund. The Commissioner of Finance may, if he shall deem it necessary, require the State Comptroller to set up and maintain special accounts in the general revenue fund with respect to moneys received for designated purposes from the federal government. *Findings and Recommendations on a Survey of the Administrative Structure of the State Government of Arkansas*, prepared for the Governor by the Institute of Public Administration (New York, 1930) p. 110.

In addition to the automotive levy several minor taxes are dedicated for purposes related to the benefit character of the levy. In California, as in many other states, there is an assignment in favor of veterans' relief. The proceeds of the gross receipts tax on boxing matches are dedicated for this purpose. California features also a myriad of less important specific-use funds to which a number of fees and other non-tax receipts are assigned. A communication from the former State Budget Director indicates "this State has probably gone to extremes in establishing specific-use funds. In times of stress this practice considerably hampers budget balancing."¹⁰

Colorado

In Colorado the usual complicated assignment and fund setup is noted. The State is typical since it assigns its funds primarily for relief, old-age pensions, and highways.¹¹ It is typical also

¹⁰ Letter from Rolland A. Vandergrift, California State Director of Finance, Sacramento, under date of May 22, 1934.

¹¹ The main funds are financed by:

General Fund:

- Percentage of Property Tax Levy
- Chain Store Tax
- Fees, Secretary of State
- Fees, Real Estate License
- Fees, Private Employment Agencies
- Fees, Securities Act
- Fees, Ore Buyers' License
- Fees, Boiler Inspector
- Fees, Bank Inspector
- Fees, Building and Loan Department
- Fees, Dairy Commissioner
- Fees, Detective Licensees
- Fees, Division of Public Health
- Fees, Public Utilities Commission
- Fees, Plumbing Inspection
- Fees, Engineers Office
- Fees, Civil Service Commission
- Foreign and Domestic Corporation License Tax
- Interest on Delinquent Tax
- General Fund Permanent Income
- Inheritance Tax
- Insurance Department
- All revenue from 2% Sales Tax exceeding \$360,000 per year

Highway Fund:

Made up from revenue from following sources:

- U. S. Government Federal Aid
- Bus Licenses and Private Carriers (Public Utility Commission)
- Motor Fuel Excise Tax; Motor Vehicle and Operators' and Chauffeurs' License Department; Auto Theft Department; Auto Theft Title Department (less cost of administration)
- Internal Improvement
- County Participation, miscellaneous

Old Age Pension:

95% of all money collected by Liquor Department; 5% retained for administration costs

to the extent that it creates specific-use funds and in some manner coordinates them for its general budget program. Furthermore, the State is similar to others in that its departments, institutions, and boards retain the funds that they receive in the course of their activities. The recent retention of continuing outlays financed by specific mill levies has also been noted. The State mitigates the independence of the specific-use funds through an exceptional provision dealing with the turning over of surpluses. There is no doubt, however, that it is a nominal requirement and that the State agencies can do much to prevent the existence of such surpluses which they might be required to turn over. Colorado is noted for its minor funds financed by property tax levies. In addition to the mill levy for general State purposes twenty-three mill levies (for the calendar years 1932 and 1933) are imposed for special purposes.¹² There are also twenty-nine miscellaneous cash funds, financed by revenues collected by a similar number of departments, which are retained and used for administration costs. In some instances surpluses are turned into the general fund. A needless complication involving different fiscal years and a difficulty of comprehension of the State's fiscal position may be traced to the excessive number of independently financed activities.

Connecticut

In Connecticut only four main taxes, three of which are related to highways, appear as assigned revenues. This gives no true indication of the extent to which multiple funds have been maintained. Writing in 1934 the State Tax Commissioner noted:

Connecticut has to a very large extent gotten away from the special fund system. During the fiscal year ended June 30, 1933 receipts were kept in no less than twenty-five different funds. Of these funds, however, two only were of outstanding importance. Of the total State receipts of \$32,881,346.26, \$17,907,732.84 represented that of the General Fund, and \$13,245,210.72 represented that of the Highway Fund. The other 23 funds all told had receipts of only \$1,665,802.70, of which over half or \$838,528.00 represented that of the Emergency Unemployment Relief Fund. Of the total General Fund receipts of \$17,907,732.84, \$17,124,234.44 were available for general purposes and \$783,498.40 were receipts pledged to specific appropriations. These miscel-

Direct Relief:

\$360,000 annually derived from 2% Sales Tax. This act was passed by last General Assembly to be effective as long as it is deemed by the Governor that an emergency exists.

(Prepared by Jas. P. McInroy, State Budget and Efficiency Commissioner, July, 1935.)

¹² *Budget of the State of Colorado for the Biennium beginning July 1, 1935, ending June 30, 1937, (Denver, 1935) p. 5.*

laneous receipts pledged to specific appropriations represented no less than 62 separate and distinct accounts.¹³

The Commissioner also indicated that the 1933 report of the State Board of Finance and Control disapproved of the budgetary methods that were associated with the special funds system. The Board is quoted as follows:

It has been said repeatedly, and it is the consensus of opinion among authorities in state finance, that the special fund system is incompatible and irreconcilable with the budget system. Any system that, in these days, prevents the most advantageous use of the taxpayers' money is objectionable. We do not advocate abandoning the long established policy of dedicating specific revenues to specific purposes, but we do not believe that it is either necessary or desirable that cash derived from dedicated revenues be physically segregated and held to be used only for the purposes to which the revenues are dedicated. Under the budget system it is but a matter of elementary accounting to insure that expenditures may be incurred for any given function up to the full amount of the revenue receipts dedicated thereto. We, therefore, strongly urge the consolidation of the entire expendable cash resources of the State under an appropriating, budgeting and accounting system that will in effect preserve the special fund system and safeguard dedicated revenues. No sacrifice is involved in the plan proposed, but considerable sums in interest on temporary loans will be saved which otherwise could be avoided only by increasing taxes.¹⁴

It will be noted that the Board expresses the usual state attitude of tolerance towards the practice of dedicating specific revenues for specific expenditures. Apparently no success has been achieved in the efforts to carry out the recommendations of the Board. Connecticut's problem, it should be noted, is a minor one since it deals primarily with insignificant non-tax receipts.

Florida

In Florida budgetary problems created by continuing appropriations are further aggravated by its assignment policies. The yields of Florida's important tax, the property levy, are assigned for a number of purposes. In addition a number of other specific-use funds have been created to carry the numerous assignments of minor revenues. A survey of the fiscal problem in Florida, made by a special committee, indicates that there has been difficulty in connection with the assignments.

It is essential that all existing provisions of law earmarking special items of income for special purposes and making

¹³ *Connecticut Budgetary System*, unpublished survey prepared for the writer by William H. Hackett, State Tax Commissioner, Hartford, June, 1934, p. 5.

¹⁴ *Ibid.*, p. 6.

permanent appropriations for the needs of particular services or activities be repealed. There is nothing that will more impede budget procedure, complicate accounting systems, and encourage unproductive expenditures than these earmarked special funds, usually collected by a governmental agency and set up for that agency's benefit. The State has nothing to gain and everything to lose by segregating these revenues in special funds. If the fund is inadequate to serve the purpose for which it was created, the general fund is called upon to make up the deficit. If the amount paid into the fund is larger than necessary, the tendency is to dissipate the surplus in unnecessary expenditures. The contention is made, for example, that an expense which is paid out of a special fund does not cost the State anything because it does not affect the general fund of the treasury, and the boast is made that the agency is self-sustaining. The absurdity of this argument is too obvious for comment, and yet it has been used time and again to defeat the purpose of budget control. The payment of these revenues into the general fund need not restrict in any way their expenditure for the purpose for which they are collected.¹⁵

Elsewhere the same Committee stated:

In making appropriations to meet the needs of a government, consideration must be given to relative as well as absolute needs. Consideration of the relative importance of the several requests for appropriations cannot be made unless all or practically all of the government's revenue is paid into a general fund and thus made freely available for appropriation. Under existing conditions, with important items of receipts already earmarked for particular purposes and with many provisions of law on the statute books already providing for the appropriation of money, the legislature is unable to exercise currently a determined voice with respect to provisions made for meeting the needs of government. The abolition of most of the special funds and all permanent appropriations is thus essential to the proper working of a budget system.¹⁶

Georgia

In Georgia in addition to automotive taxes, the three important property, sales, and liquor levies are tied to specific functions, leaving only a limited scope for revenues accruing to the general fund. The receipts of the State's poll tax, a tax on amusements and exhibitions, and the tax on domestic animals are assigned to the support of schools. It has already been indicated that specific-use funds set up to carry the assignments are not linked adequately to the budget, and thereby evade many of the procedural elements to which the general fund items are subjected.

¹⁵ *Report of the Special Committee on Taxation and Public Debt in Florida, op. cit.*, p. 27.

¹⁶ *Ibid.*, p. 28.

Idaho

Idaho, in addition to its automotive levies, has assigned to specific outlays the yields of at least three important levies, namely the mining tax, alcohol tax, and sales tax. Idaho is one of the states in which there are new developments in the assignment of revenues collected from gasoline taxes. There is an increasing use of fuel by aircraft and the expenditure of the funds collected from aircraft users on roads must naturally produce an absurd situation. This difficulty has in some states been avoided by a restriction of the tax to automotive vehicle users. Idaho has solved the problem by levying a separate aircraft engine fuels tax and assigning the receipts to an aeronautics fund. For its earmarked revenues the State sets up specific-use funds. It incorporates these into the general budget in a manner that permits the compilation of a grand total for all state outlays of each fiscal year.

Illinois and Indiana

Illinois and Indiana represent typical Mid-Western policy with respect to this matter. In the former State the important occupation tax is linked to various activities. There is also the link frequently found between specific taxes on horse-racing and agricultural fairs. The assigned revenues are carried in specific-use funds and are not incorporated into the general fund. In Indiana, in addition to the automotive taxes, the liquor, and the general property levies are in part earmarked for specific purposes. It should be noted that a share of the property tax yield is assigned to a function not likely to be a too permanent element in the fiscal system, namely the construction of World War memorials. A number of other specific assignments of both tax and non-tax revenue are found.

Iowa

In Iowa among the more important levies it appears that only the poll tax is assigned. However, some form of segregation is involved in the use of sales and income tax receipts for property tax reductions. The survey of the State made by the Brookings Institution in 1933 dealt with the funding system and carried with it a discussion of the assignment device as a budgetary problem. Although the discussion is in terms of non-tax revenues, it is nevertheless relevant. Since these are typical of the comments made by the Brookings experts for several state systems they may be profitably quoted in full.

Adoption of definite funds and the funding of all receipts are practices which have been universally adopted by all governments for the safeguarding of resources and the restricting and controlling of expenditures.

Necessity for Establishing Fund Restrictions. The method of restricting certain sources of revenue to finance expendi-

tures of specific activities or services is made necessary through the attempt to impose the cost of various public services on the particular classes which benefit from the services. For example, motor vehicle revenues are usually restricted to the financing of highways; and revenues from hunting and fishing licenses are expended for the protection of game and fish. On the other hand, sources of revenue are often restricted to pay certain expenses which would otherwise result in increased tax levies; for example, the creation of sinking funds for meeting the principal and interest on debt service. Still other funds are created by federal grants, private gifts, devises, and legacies, the acceptance of which imposes an obligation to expend such funds in accordance with the terms of the gift.

Administration of Funds. Restrictions placed upon the use of funds necessitate a formal procedure in their administration to insure the observance of legal restrictions. Such procedure includes: (1) The method of authorizing the expenditure of its resources, (2) the method of funding its receipts, and (3) the operation of spending.

The authorization of expenditures and the operation of making expenditures are controlled through appropriations and through the allotment procedure previously recommended. The funding of receipts is controlled by the specific allocation of receipts in accordance with laws creating them. Accordingly, accounts should be so kept and reports so rendered that the revenues, expenditures and financial condition of each specific fund can be clearly and readily determined. For control accounting purposes, however, certain miscellaneous funds may be classified into groups conforming to their general purposes and the general sources from which their revenues are obtained.¹⁷

It should be noted that the experts recommended no effort to abolish the assignments as such. The State authorities themselves, in a survey made in a previous year, had criticized the dedication of non-tax revenues, emphasizing that these fell outside the scope of executive planning and legislative control. Their recommendations are based on the same conditions noted by the Brookings experts.

Revision in Financial Control of State Institutions

To include in the biennial appropriation by the Legislature, expenditures from non-tax earnings of the Board of Control and the Board of Education, as well as to provide a continuous audit of these institutions under the State Board of Audit.

The Legislature is supposed to control the purse strings of the State, yet in recent years the custom has grown by

¹⁷ Report on a Survey of Administration in Iowa, submitted to the Committee on Reduction of Governmental Expenditures by the Institute of Governmental Research, Brookings Institution, (Des Moines, 1933), p. 429.]

which the Board of Education and Board of Control expend large sums from earnings of their institutions without legislative sanction. This has resulted that whereas the State Legislature appropriated only \$7,000,000 for the Board of Education for each year of the last biennium, the Board actually expended about \$11,000,000, including the outlays from tuitions and other receipts.

Our committee made a survey of the financial practice of other states in this respect and finds, as a general rule, that the state legislature makes total appropriations of the expenditures both from the tax and from miscellaneous receipts for all institutions. This gives the Legislature and the people of the State a complete picture of the entire expenditures of the institutions instead of only a part.

To accomplish this our proposed measures provide that all earnings of State institutions must be turned into the State treasury and can only be removed therefrom by an appropriation of the Legislature.

There has been a perennial dispute between the Legislature and the State institutions as to the best method of auditing the financial transactions of these institutions.¹⁸

The discussion of assignment practices in the various commonwealths is continued in the next chapter.

¹⁸ *Report of the Commission on Reduction of Governmental Expenditures*, (Des Moines, 1932), p. 30.

CHAPTER XX

TAX ASSIGNMENTS AND BUDGETARY UNITY IN STATE FINANCES (Continued)

States Featuring Numerous Assignments (Continued)

Maryland

Maryland has to a large degree indulged in a program of assignments. In addition to the automotive taxes, the inheritance tax, the real and personal property levy, and the special emergency sales tax have been assigned. The property tax is permanently linked to State debt charges. Unemployment relief and old-age pensions, both newer phenomena, are the destination for the other two levies mentioned.

Michigan

In Michigan there has been a recent revision of the dedication practices. It should be noted that this has not led to a complete abolition and that a rather impressive list of tax assignments is still found. The status of recent changes can be best gained from a quotation from a letter received from the Budget Director of the State:

Many changes have occurred in this division by reason of the administration's program of placing all general taxes and fees in the general fund. Some proposals on minor revenues failed to carry, but the majority of our larger revenues are now in the General Fund. Sales tax and liquor revenues go direct to the General Fund. Gasoline tax remains properly a part of the Highway Fund. General property tax for State purposes has been repealed in its entirety. Primary fund for education is untouched, but the general fund is now the heaviest contributor to this activity through the Special School Aid Appropriation. Poll tax has been repealed. Malt tax remains in effect but is scarcely producing any revenue. Inheritance tax is part of the primary school money.¹

Dedicating such taxes as inheritance levies for school purposes indicates that unessential assignments still exist. It is noteworthy, however, that Michigan may be added to the list of states that feel that there are advantages in budgetary unity.

Minnesota and Mississippi

Minnesota and Mississippi, although they differ with respect to certain other phases of their fiscal and budgetary practices,

¹ Letter from G. R. Thompson, Budget Director, State of Michigan, under date of January 14, 1936.

both offer many instances of assigned tax revenues. In the former State, the personal income tax, the corporate tax, and the severance tax, in addition to the automotive tax, are linked to specific functions.

In Mississippi independently financed funds are included in the budget estimates only to the extent of a recognition of the revenues collected by them and there is normally no inclusion signifying normal control of the expenditures. Special legislation has removed some of the exemption advantages.²

In both states specific-use funds are set up and receive some form of nominal link to the general fund.

Missouri with the assignment of its property tax and sales tax; Montana with the assignment of its personal income tax and corporate income tax; Nebraska with temporary assignment of its inheritance tax and definite assignment of its poll tax; and Nevada with the assignment of its property tax to various funds, all represent the typical attitude towards the assignment problem. In each state these assignments are in addition to those related to the highway fund. Also, in each state specific-use funds linked in some form to the general budget are found.

New Hampshire

In New Hampshire several levies, including the estate tax, tax on gas and electric utilities, and the liquor excises are assigned for the rehabilitation of the treasury balance and the retirement of State debt. This practice is a recent phenomenon, as the Brookings Institution survey indicates:

Prior to July 1, 1931, the Legislature made annual appropriations for debt service charges on all bonds and notes issued by the State, other than highway and trunk-line completion bonds. Beginning with July 1, 1931, all redemption requirements and interest charges are provided for by earmarked revenue.³

Evidently this step is a change approved by the Brookings experts.⁴

Elsewhere in the survey the general use of the assignment device in safeguarding resources and in restricting and controlling expenditures is extolled.⁵

New Jersey

In New Jersey considerable concern has been shown in recent years over the status of the assigned revenues and the independent funds which they have created. Even a more checkered experience in the past than the status of the assignment problem at the present time might indicate, may be noted. There have been a number of levies adopted and assigned for unemployment

² See p. 121.

³ Brookings Institution, *New Hampshire Survey, op. cit.*, p. 390.

⁴ *Ibid.*, pp. 43-44.

⁵ *Ibid.*, p. 379.

relief which have been repealed. At the time of writing a number of recommendations for State levies to be assigned to unemployment relief are being discussed along with further recommendations for diversion of highway funds. The discussion of the recent assignment problem in the survey of executive control over State expenditures in New Jersey, prepared by Professor Cline in 1934, is noteworthy for its appreciation of the budgetary elements of the problem. It may profitably be quoted at length:

New Jersey had reached a ridiculous extreme where approximately three-quarters of the total State revenue had been allocated by the legislature to certain departments or dedicated to specified purposes. The State railroad tax is dedicated to educational expenditures, including the State's share of the cost of the teachers' pension fund. Various taxes on insurance companies are dedicated to other pension funds. The money received by the State licensing boards and certain departments may be spent only by the agency which collects it. Even the inheritance tax has been dedicated in part to the support of old age pensions. State levies on general property have been used for certain purposes, such as State aid for schools, and debt service on highway and soldiers' bonus bonds. All the revenue from the gasoline tax and motor vehicle license fees is allocated to specific purposes, principally for the use of the highway department and State aid for roads. Furthermore, the expenditure of the major part of these dedicated funds has not been subject to budgetary control, although the legislation of 1933 introduces an important improvement in this respect.

... The dedication of revenues to specified purposes necessitates the use of about forty different segregated funds. This seriously interferes with proper budgetary planning, prevents the best use of State funds, especially in a financial emergency, and greatly complicates accounting records and treasury management. The situation is comparable to that of a man who carries the money for his lunch, cigarettes, shows, etc., in separate pockets and goes hungry because his lunch money pocket happens to be empty although the others contain cash. The Princeton report urged that the practice of dedicating revenues should be greatly curtailed. The original Kuser and Reeves bills went a long way in this direction and thus incurred the enmity of several self-interested and politically important groups. Particularly strong were the protests by spokesmen for those groups especially interested in highway finance. These included the State highway department, the local officials interested in preserving State aid for roads, and various automobile associations. They commanded sufficient votes in the legislature to block any move to disturb the dedicated highway revenues. As any discussion for improving the budget and securing effec-

tive control over expenditures soon encountered the problem of highway finance, it seemed impossible to make any progress on the proposed fiscal legislation.⁶

The magnitude of the assignment practice in New Jersey may be noted from the fact that such important functions as school expenditures and debt service, in addition to State aid for roads, are included among those independently financed.

The recent changes in New Jersey, other than the repeal of the taxes levied for unemployment relief, have not disturbed the dedications but have eliminated some of the budgetary evils associated with the practice. In the 1933 reform some of the statutes provided for steps bringing the expenditures under budgetary control.⁷

Some of the items are not continuing or fixed solely by receipts, but are fixed by appropriations. Cline has shown, however, that the existence of the revenue assignment provides a background for inflated appropriations. He notes:

the continuance of such an extensive use of the practice of dedication still complicates budgetary planning, the form of the budget, accounting records, and treasury administration. The evil is aggravated by the danger that the recipients of dedicated funds will exert sufficient pressure to be allowed to spend about the full amount of revenue collected, regardless of whether this will result in the soundest and most economical use of State funds. If the dedicated revenue has been collected and is lying idle in segregated funds, the recipients of such money have a powerful argument with the legislature for larger appropriations. They can claim that since the money belongs to them, they should be allowed to spend it and that their expenditures "do not increase taxes or constitute a drain on the general fund." One may venture the opinion that the beneficiaries of dedicated funds will be allowed to spend about the full amount of revenue collected. If the latter becomes insufficient they will endeavor to have it increased, as the fish and game commission did a short time ago, when it persuaded the legislature to double the charges for fish and game licenses.⁸

In the highway budget law, there are still provisions that require that certain mandatory dedications shall not appear in the annual appropriation acts. Such continuing appropriation items also cover some part of the debt service charges. From the point of view of fiscal policy and budgetary control, New Jersey has much to learn from its neighboring State, New York, regarding budgetary unity.

A typical attitude toward the assignment of funds is noted in New Mexico and North Dakota, two states that differ in

⁶ Cline, *op. cit.*, pp. 12-13.

⁷ *New Jersey Laws* (1933), c. 193, 293 and 451.

⁸ Cline, *op. cit.*, p. 27.

other matters of budgetary policy. In the former State, personal income taxes, corporate income taxes, the sales tax and the liquor tax, in addition to automotive taxes, are all assigned for stated purposes. In North Dakota a general property tax and a sales tax, in addition to several minor levies and the automotive taxes, are assigned to stated purposes and are carried in specific-use funds.

There is some indication that outside of its assignments to the autonomous State highway fund, the bulk of Oklahoma's revenues will shortly accrue to its general fund.⁹ The recent survey showed the usual prominence of minor and unimportant specific-use funds in addition to several major assignments. The Brookings Institution, whose experts made the survey, discussed the problem and recommended changes designed to unify the administration of approved separate funds. The abolition of others was suggested. The comments in the report for this State convey the same message noted in the already cited Iowa and New Hampshire surveys.

If the finances of a government could be handled like those of a private corporation, it would be unnecessary to recognize fund distinctions, as all receipts would be covered into a single pot, or general fund, from which all payments to meet obligations would be made. This would greatly simplify the accounting and reporting work, as but one set of books would be required to gather the accounting information needed by the management. Unfortunately, this condition does not obtain in government. A government has the responsibility of handling large sums which are of a private trust character, and even in respect to public funds, many legislatures, particularly of Oklahoma, have, as a matter of policy, earmarked much of their revenue for particular purposes. The obligations and limitations that are thus set up can be met only by handling each category of receipts and expenditures as a separate accounting proposition. This is done by treating each such category as a separate "fund." Each such fund has, as it were, its own accounting personality, its own receipts and disbursements, its own resources and obligations. The formal establishment of definite "funds" and the funding of all receipts are universally practiced by governments to safeguard resources and to restrict and control expenditures. . . .

All funds now recognized by the legislature, but excluded from the list, should be abolished; since no real purpose is served by continuing them, inasmuch as any deficits in the

⁹ By legislation in 1935 Oklahoma abandoned the earmarking of a large portion of state collections for the common schools. Exceptions to this trend were the collections from the beer tax and a small part of the gross production tax. It would appear that the shift is definitely toward the policy of covering collections into the state general revenue fund, with legislative appropriations for support of the schools and other functions. Raymond D. Thomas, "Recent Changes in the Oklahoma Tax System," *Tax Magazine*, Vol. 14, No. 9, Sept. 1936, pp. 522-3.

more important ones omitting, for example, the Fire Marshal's fund, and the C. A. N. U. support and maintenance fund, usually are financed from the general fund.¹⁰

Recommendations were made by the Institute in connection with special fund practices. They indicated the extent of the reforms needed to eliminate defects in accounting and custody practices associated with the numerous funds.¹¹ The report commented on the practice of dedicating revenues for specific purposes. It noted that:

As a matter of policy, the legislature should discontinue the practice of creating special funds, except where there is an obligation on the part of the State to use the revenues received from specific sources for special purposes.¹²

In the discussion upon which this recommendation was based there is a less sympathetic attitude towards assignments than may be noted in some of the other state surveys made under the auspices of the same Institution. The discussion may profitably be quoted since it reveals a keen appreciation of the disadvantages of unessential assignments. The depression evidently is responsible for such a clarified attitude.

There is an undoubted urge in every state to endow certain activities and to remove from the financing of those activities the uncertainty involved in submitting them periodically to legislative scrutiny. Those interested in special activities are impelled to seek security for their special interest by the creation of special funds to be devoted exclusively to the financing of these activities. The procedure provides a degree of certainty upon which plans for the development and functioning of certain departments can be safely based. Nevertheless, from the point of view of sound financial administration and of the effective functioning of democratic government, this practice cannot be too severely criticised. The burden of proof should always be in favor of passing all revenues through the general fund and placing them under control of the legislature.

Only where the tax is apportioned on the basis of a principle which requires that the proceeds shall be devoted to special uses can the establishment of special funds be justified. Such justification, for example, is undoubtedly present in the case of special taxes on motor vehicles which rest on the principle that the cost of the highways should be assessed largely against the users thereof. On the other hand, there is no such compulsion in the case of certain special taxes, which are now allocated to educational funds and to a number of special funds.

It may be a hardship to subject special activities to the

¹⁰ Brookings Institution, *Oklahoma Survey*, *op. cit.*, p. 267.

¹¹ *Ibid.*, p. 270.

¹² *Ibid.*, p. 271.

vagaries of legislatures, but it is necessary to impose this hardship if democratic government is to function effectively and an adequate system of financial administration attained. The legislature is the policy-making body. Its responsibility is to determine what activities are to be undertaken and to what extent they are to be conducted.

There is no necessary relationship between the yield of specific taxes and the cost of carrying on given activities. The segregation of special revenues to special purposes may result in an excess of revenues for certain activities and an inadequacy of revenues for others. In order to operate an effective budget system, all activities must be brought within its scope. Each activity must be evaluated with reference to all the other activities, and the available revenues apportioned according to the relative importance of the various services as determined by the legislature. The segregation of special revenues to special purposes is an evasion of legislative responsibility. It destroys efficient financial administration. It deprives the State of a periodic appraisal and examination of the activities being carried on and the relation of the costs of those activities to the revenues available. If the finances of the State government are to be placed upon an efficient basis, all revenues should be brought under the control of the legislature through a budget system. Only where there is an obligation on the part of the State to use the proceeds from specific sources for special purposes should special funds be established.¹³

Ohio

In Ohio, in addition to the usual highway assignments, the important sales and cigarette levies are assigned for educational purposes. An authority on the financial affairs of the State has noted increased fiscal difficulties which arise even in cases where the budgetary control element is satisfactorily handled through a covering of all the assignments in the general fund. The inadequacy problem still remains. The State's ranking financial officer described its assignment and multiple fund practices as follows:

Those charged with conducting the financial operations of the State government normally think in terms of two main funds. The highway fund is chiefly fed by the gasoline and motor vehicle taxes. The entire receipts for the biennium from these sources is customarily appropriated for the purpose of the highway department. This department is expected to expend its entire appropriation and the extent of its activities is measured by the amount that it receives.

All of the other one hundred fifty-six different offices, departments, divisions and institutions of the State govern-

¹³ *Ibid.*, p. 218.

ment are supported from what is known as the General Revenue Fund. Nearly all of these other spending agencies have appropriations in fixed amounts. It is this fund, therefore, which gives State officers their chief concern in managing the State's affairs.

As a matter of literal fact, the General Revenue Fund is made, by somewhat extra-legal methods, to comprise a host of smaller and supposedly independent funds. Nearly every time a new governmental activity is pressed upon the attention of the legislature, its proponents urge that it will cost the State government nothing because it will produce enough income to support itself. If the legislature establishes the new service, a special fund is created into which are covered the receipts of the enterprise and from which its expenditures are paid. It is the history of practically every such fund, however, that after a few years this self-contained repository is opened at one end, the receiving end. Additional appropriations begin to be made out of the general revenues and thereafter to all intents and purposes, the special fund becomes no more than a ledger account. Nearly sixty such fund accounts now complicate and encumber our books. With few exceptions, they could be abolished and consolidated with the general revenue fund without any change from the present method of their operation. In truth, the irregular accrual of their receipts and the relatively steady flow of their expenditures enforces the practical requirement that they be treated in that manner now. Were they not, we should always have some of them insolvent while others were flush with unused surpluses.¹⁴

As in the case of the conclusions based on New Jersey's experience, it may be noted that the specific fund tie-up neither promotes economy nor insures the creation of a self-balancing fund financed by a benefit relationship. The restriction and control of expenditures has not always been successfully achieved.

Oregon

Continuing the discussion of states, Oregon is noted as representative of a group that has both permanent and transitory examples of assigned revenues. Permanent items include specific mill levies of the property tax assigned to schools and highways and the usual automotive assignments for the highway fund. The sales tax in effect until June 30, 1936 was also assigned to schools. The alcoholic beverage tax is assigned to unemployment relief while the yield of the sales tax on gross sales is apportioned between the property tax reduction fund, the fund amortizing bond issues to pay the soldiers' bonus, and unemployment relief. In addition to the portion of the sales tax dedicated for the relief of the property tax, the personal and corporate income taxes are pledged for the same purpose.

¹⁴ Howard L. Bevis, "Balancing the State Budget," *Proceedings of the Twenty-Fifth Annual Conference, National Tax Association, 1932*, p. 107.

Pennsylvania

In Pennsylvania a recrudescence of assignment practices may be traced to unemployment relief. The policy here, as in the case of New Jersey and several other states, has led to difficulties because of the fact that the specific link has tended to encourage the Legislature to give the taxes a life shorter than the expenditure need has required. In the spring of 1936 both New Jersey and Pennsylvania were meeting a grave financial crisis brought about by the inadequacy of unemployment relief funds. In Pennsylvania at the time, in addition to the usual assignment to the motor license fund, all the assigned taxes were dedicated wholly or partly to unemployment relief. Of the liquid fuel tax share retained by the State, 2½c is assigned to the motor license fund and 1c is assigned for unemployment relief. The capital stock tax, the utilities gross receipts tax, the cigarette tax, the amusement tax, and the documentary stamp tax are among those assigned to unemployment relief. The assignments were fostered by a requirement of the Federal Emergency Relief Administration that Pennsylvania pledge certain revenues to meet a \$60,000,000 contribution for unemployment relief.

A Rhode Island budget document (1934) indicates that approximately one-half of the total revenues of the State are assigned for specific purposes. This is not an uncommon share for those states that have not specifically sought to abolish the practice. Among the assigned revenues are the sales tax and the automotive levies. In addition to the general unemployment relief and highway funds a few other minor funds exist.

South Carolina

In South Carolina a recent study of the State administration has emphasized the problem in that Commonwealth.

The attempt of the State to overcome some of the administrative problems created by the existence of multiple independently financed funds is described as follows: In 1930, the General Assembly passed what is known as the "Daily Deposit Act," requiring State funds to be deposited in the State Treasury when collected (Act of 1930, p. 1361). It provided, however, that in the discretion of the State Treasurer, each department or institution may be allowed to maintain a revolving fund. It further provided that "the provisions of this Act shall not apply to fees or other revenues, collected by any State institution, which are not required by law to be remitted to the State Treasurer." The State auditor estimated that a sum of approximately one million dollars has been made available for general use by the terms of this Act. (Report of State Bank Examiner, 1930, p. 44.)

For several years the Comptroller General has advocated the pooling of all State funds into a common fund when deposited in the various banks. (Report of Comptroller Gen-

eral, 1931, p. 101.) In 1930 the legislature empowered the State Finance Committee to borrow from any department of the State Government "for the use of the State, any surplus which may be on hand in the office of the State Treasurer to the credit of the departments of the State Government." (Acts of 1930, p. 1344.) The law provided, however, that no funds belonging to any particular department could be used by the State Finance Committee "without the written consent of the department affected." The proviso practically nullified the pooling plan.¹⁵

No attempt was made, however, to abolish the funds as such or to modify the dedications underlying them. The State's personal income tax, in addition to the automotive levies, is assigned to funds other than the general fund. The difficulties that have arisen in South Carolina because of the autonomous highway fund, have already been mentioned.

Other States

South Dakota tolerates widespread assignments. The personal income tax and sales tax are linked to schools and property tax reduction funds. The usual automotive levy dedications are present.

In Tennessee the assignment practice is equally popular. The general property tax, tobacco tax, and beer tax are assigned for educational purposes. Assigned revenues are segregated in specific-use funds, are not subject to the requirements of the general fund, and are responsible for the usual abuses growing out of budgetary autonomy. The writer has been informed that:

A number of special earmarked funds are maintained. The balance in each of these funds continues from year to year, and unlike other appropriations, does not revert to the General Fund at the end of each biennium. There were 46 of these funds on June 30, 1934, with a balance of \$5,459,349.22, of which amount \$3,216,903.36 was in the Highway Fund.¹⁶

Texas, Utah, and Vermont are all typical in their assignment and fund policies. In all of these States the schools and the roads benefit from the bulk of the assigned revenues. In none of the group does the usual specific-use fund set up appear to be missing.

Washington offers an interesting example of an assignment policy obviously carried over to newer taxes from the specific mill levy period. This refers to the taxes on retail sales of liquor sales, admissions, business and capital, etc., which are assigned to three funds and five particular higher institutions. The

¹⁵ James Karl Coleman, *State Administration in South Carolina* (New York, 1935), p. 60.

¹⁶ *Budgetary System of Tennessee*, op. cit., p. 6.

assignments are based on percentages of the yields varying from 58.51% to 0.045% to particular purposes.¹⁷ In addition, the general property tax and the proceeds of several other non-tax revenue sources are linked to educational facilities. Assignments are credited to special funds created for the purpose. As has been indicated, such funds are of an extra-budgetary character. In a few instances appropriations are made from the General Fund, in addition to expenditures limited by collected receipts.¹⁸

A similar linking of tax yields to expenditures is found in West Virginia where all the assigned levies, with the exception of the public utility license tax assigned for regulation of public utilities, are assigned for roads and schools.

Finally, Wisconsin is less typical than the others because of the fact that it fails to dedicate many of its important levies and because its assigned revenues are carried in special accounts in the general budget. In addition to the automotive levies, the income surtax is assigned to the Teachers' Retirement Fund and to unemployment relief. It appears that the income tax proper is not assigned.¹⁹

Summary and Conclusions

The foregoing discussion indicates the magnitude and complexity of state practices regarding the assignment of revenues for specific purposes. (A strong desire to tie up funds and to dedicate them to specific expenditures appears to have pervaded the minds of most administrators and legislatures in the American commonwealths. As in the case of other fiscal phenomena, it may be well to seek an explanation in terms of the property tax ideology.) The property tax by its nature is variable in terms of a specific expenditure and it has been a long-standing practice to levy a property rate which is in itself a summation of many individual rates levied by several jurisdictions for various purposes. The need for segregation and for linking particular yields to particular purposes became associated with the idea of taxation. (The comparative stability and certainty of property tax yields, as well as the elimination of any problems of fiscal adequacy, failed to stress any basic defects in this practice. Delinquent payments, the property tax counterpart of cycle-sensitivity, had not as yet been known to be a grave problem. There seems to have been, therefore, no reason why the link of tax revenue to a specific expenditure was not carried over into the realm of other taxes.) Further reasons for the assignments were noted. (There is in some jurisdictions the desire for enhancing state credit by specifically dedicating state revenues for debt service charges.)

¹⁷ Washington, H. B. 237 (1935) and H. B. 92 (1933).

¹⁸ *Budget System of the State of Washington, op. cit.*, p. 1.

¹⁹ Data regarding the tax assignment and multiple fund practices of Delaware, Kansas, Louisiana, North Carolina and Wyoming have not been assembled.

(There have been benefit relations and cost allocations which encourage tax yield dedications. A further explanation is found in the desire to limit the taxing powers of legislatures. It has already been mentioned that many states have a constitutional clause requiring that the purpose for which the tax is imposed be made known and legally associated with the tax revenues at the time of the adoption of the tax.) This practice in itself does not necessarily mean the adoption of assigned revenues since the states may pay lip service to the requirements by linking to the expenditure the revenues to be made out of a general fund. The existence, however, of this requirement has in many cases established a precedent that is followed. It is hence considered a normal and reasonable procedure to set up a fund for every particular levy that is received. (The notion of a common fund frequently does not exist and the general fund is merely one of the multiple funds that are fed revenues from various sources. It is not uncommon to see references to the general fund as one that enjoys the proceeds of only one or two important levies.)

(The states have little choice with respect to their highway fund or unemployment compensation arrangements) so that the question of eliminating all assignments need not be entertained as a matter of individual choice. (It is clear, however, that many of the other assignments are not mandatory nor are they linked to essential benefit ideals.) Furthermore, such coercion as is made by constitutional mandate should not be considered as an irrevocable element in the financial scheme. (Soundness in state budgetary and fiscal practices will not be accomplished without a complete overthrow of traditions and legal frameworks. Although it is only a recent development that the absence of any assignments has been deemed desirable, the link of this reform to accepted norms of soundness need not be questioned.)

Pending the changes that will eliminate all needless assignments, there are budgetary practices that can be improved. It has been shown that a number of practices, at present associated with the assigned revenues, are not conducive to the best financial interests. Modifications can be introduced that need not disturb the legal and practical significance of the assignments. (The existence of autonomous highway funds) has already been noted in connection with extra-budgetary items. These (are unessential and undesirable. Assignments can be carried as earmarked book accounts within the framework of general funds. Simple bookkeeping arrangements can take care of the necessary allocation and supply the information needed for adjusting rates, expenditures and revenues to the desired relationships. By doing so, a greater degree of budgetary unity in planning, voting, and executing a fiscal program can be achieved. New York's practices in this matter might well be established as a standard for other jurisdictions.)

If the states abolish non-benefit assignments, improve the budgetary procedures associated with those dedications which they

retain, and tend to discourage the setting up of special and separate funds for self-balancing categories, they will have progressed far on the road towards budgetary unity. Only trust funds and other exceptional elements will require any individual budgetary recognition.) (If, furthermore, the loan expenditures are related to the general scheme of finances and future commercial and industrial enterprises are developed and properly budgeted, the states will have no difficulty in achieving a true budgetary unity.) (Such a condition, with all its inherent advantages, is definitely worthy of being a reform goal. It is a mark of maturity that not a single American state today shows. No commonwealth, however, requires fewer changes in its policies and its legal basis to achieve this status than does New York.

PART III
BUDGET PROGRAM PREPARATION

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✓ CHAPTER XXI

THE PROBLEM OF PREPARING THE BUDGET PROGRAM

Procedural Stages in Budgetary Matters

The budgetary practices of the American states must be treated in terms of a democratic form of government. Fortunately this form of government may still be used as a basis for describing the practices of some of the leading nations of the world. (In an analysis the provisions and procedures governing the formulation practices must be viewed. ^{Preparatory} The delegation of power to the executive is a basic feature of this stage. ^{Adoption} The various methods and procedures associated with the adoption of the fiscal program by the legislative bodies cannot here be neglected. ^{Execution} Equally, the execution of the voted program involving methods of modification, change, and control must also be analyzed to complete the study of the budgetary system. The three basic stages are discussed in order) (This arrangement must not obscure the fact that there is a continuity involved and that no procedure is isolated, with respect to time, from any of the others.) At all times the various procedural stages are closely interrelated. It will be necessary to include as part of the subject matter of this study (an analysis of the methods by which these various procedures are coördinated and interrelated.) A splendid example of such interrelation is found in the fact that the time of some of the preparatory procedures must bear a proper relationship to the measurement of the accomplishments of the currently closing period.

The preparatory stage has occupied the center of budgetary discussion for many years. A variety of practices are covered by it. The first steps involved in formulating the financial program for a coming fiscal period are concerned with the collection of the data necessary for the compilation of estimates. From these a financial program prepared by the governmental agencies empowered to compile and coördinate the requests and forecasts is formulated. The program prepared is what is most commonly known as the budget.

✓ Budget Programs and Fiscal Policy

The second chapter of this part attempts to define the interrelationships between administrative provisions and fiscal policy. To a marked degree fiscal policy is directly and indirectly moulded by laws and custom. In the case of national governments legal provisions that stress a balanced relationship between income and outlay are scarce. Only indirect requirements and tradition and custom act as influencing factors, if any can be discerned. It can nevertheless be shown that there

are national budget systems that encourage radical types of fiscal planning, while others encourage conservative financing programs. The situation in these jurisdictions is shown to be vastly different from that found in the American states. It is not possible for most state officials who prepare the financial programs, to plan legally for any but balanced budgets. Administrative requirements, apart from debt limitations, are found in abundance. The states, therefore, are analyzed from the point of view of the fiscal programs that they must formulate and of the requisites of a budgetary system to meet the burdens that such requirements impose.

✓ Budget Program Preparing Agency

The task of the preparatory procedures having been determined, the nature of the agencies and officials charged with the formulation duties are next discussed. This forms the subject matter of the next two chapters. One of the most important phases of the major American budget reform goal, namely executive budgeting, is a relevant problem. In terms of fiscal efficiency in general and the adaptability to modern and economic fiscal phenomena in particular, the problem is one of measuring the efficiency, abilities, and responsibilities of the various governmental agencies to which preparatory functions are allocated. The chapters answer the questions, "Who prepares the budget?"; "What are the powers and duties of the budget officials?"; and "What can be done to insure a better distribution of the preparation duties?"

✓ Estimating Problems and Procedures

The chapters that follow elaborate the procedural aspects of the preparation stage. It will be shown that certain methods are more amenable to an efficient formulation of the fiscal program than others, because certain procedures are best adapted to certain demands on the planners. In discussing various methods the timing associated with the procedural aspects of budgeting is stressed. Primarily the relationship of the preparatory stages to the introduction of the fiscal program in the legislature and the relationship of this and subsequent stages to the fiscal period itself are discussed. The problem of the dates of the fiscal period in relation to economic phenomena is also analyzed. It will be shown that the most drastic failure of procedures developed in terms of administrative and political efficiency to conform to economic and fiscal necessities lies in the disregard of costly time lags. The time element is stressed also because of its importance to the problem of estimating.

(With respect to revenues, the budget is essentially only a forecast and its subsequent validity and usefulness depend in a large measure upon the accuracy of the fiscal prophecies that it must make.) Budget estimates do not assure any relationship

between forecasts and accomplishments where tax revenues are concerned. The expenditure estimates are of a different character and their acceptance as the basis for legislation determines the maximum amounts which, barring legalized changes, will be expended.) The importance of efficient estimating as an element of budget formation is understandable. (The background for such estimating superiority forms the basis for the judgment of the various procedures.) A chapter is devoted to the elaboration of the estimating problem outlined above. Following the chapter presenting a somewhat curtailed survey of the problems and practices affecting national governments, another presents a detailed survey of the practices of the American states. Because of the almost universal neglect of revenue-estimating implications that phase of the budget system is stressed.

Steps:

Procedural Steps.

fiscal policies.

Preparing agency.

Estimating problems & procedures.

CHAPTER XXII

BUDGETARY PRACTICES AND FISCAL POLICY

Planning Balanced Budgets

(An efficient budgetary system may aid in planning and bringing about the accomplishment of a desired fiscal policy. It may even be of assistance in selecting a policy. However, the planning, adoption, and execution of a financial program must ultimately depend on fiscal, economic, and political factors.) Especially in the case of national governments, the usual absence of legal requirements dictating the choice of financial and economic policies, as well as the importance of political factors, tends to reduce the relative influence that the budgetary techniques may have on fiscal matters.

(For the American states) it has already been stressed that (regardless of financial, economic, or political developments, planning and accomplishing a balanced fiscal system legally is deemed desirable and necessary) However, in the jurisdictions under survey, to the administrative practices some degree of influence may be attributed.

In order to reduce to a comparable basis the national and state problems it will be assumed that the former are exerting forces towards stabilizing the public finances and expressing such stabilization in a balanced budget program. Such an assumption does not necessarily involve an illogical *tour de force*. Planned deficits are still viewed with apprehension but they seldom need be accompanied by a desire to relax the careful planning which is more readily associated with a balanced budget program. Furthermore, it will be assumed that those preparing budget programs are not presenting paper balances which they know will break down in actual developments. One takes for granted that estimates of probable needs and income are as accurate and reliable as possible,

Disregarding various special circumstances and conditions and retaining the assumption regarding balanced budgets the problems faced by national and state governments are alike. From the point of view of preparing the fiscal program for submission to a legislature the executive agencies of the government may be forced by legal compulsion, coerced by tradition, or may be acting in a manner expressing voluntary decision.

The Governor of New York State, the Chancellor of the British Exchequer, and the Finance Minister of France may be considered representative executives in the respective categories. In each case adverse economic circumstances and the usual intra-governmental difficulties and obstacles present in democratic governments may be readily imagined.

(A fiscal program that shows revenues and expenditures in equilibrium is frequently prepared in a manner that prevents a continued balanced relationship in actual practice) In other words, there may be an unrealistic assumption involved in the belief that executives are always deeply concerned with more than a projected paper balance.

In the following papers some of the practices and provisions that determine the nature of the fiscal programs in national jurisdictions are analyzed.

Budgetary Influences on Fiscal Policy

Great Britain

(The British, for example, have a traditional as well as a legally required practice of making recommendations for the financing of anticipated deficits.) The British provisions, however, place no restrictions on the manner in which the recommended balance is to be achieved, and may include the financing of expenditures through loan financing. (The practice contrasts with that noted in the American states. On one hand it does not enforce a strict relationship between current income and outlay. On the other, no neglect of the financing problem is sanctioned. There is no effort to minimize the part that borrowing is to play and no encouragement for over-optimism in the estimating of revenue yields. The current British armament program, for instance, is one financed partly through borrowing. It is, however, an exceptional procedure and the traditional British policy has been similar to that of a jurisdiction operating with variable property tax rates. The British, following an established custom, use one direct and one indirect tax as a variable element in their fiscal program. The periodic variation of the indirect tea duty was abandoned for a number of years. However, in the 1936-37 budget program submitted by Chancellor Neville Chamberlain, a re-introduction of the variable tea duty rate was made. The more important and frequently used stabilizing tax is the income levy. The normal tax rate of so many shillings per pound of taxable income varies, while the sur-tax rate structure or its progressivity does not necessarily change. It should be noted that the periodic rate revision does not restrict the scope of tax reforms that may be recommended through the medium of the budget message and does not relieve fiscal authorities of any of the duties found elsewhere in connection with the preparation of fiscal programs. Tax reforms may take place at any time, and they need not necessarily be related to the actual needs dictated by current balancing requirements. The changes in the rates, if any, are not made mandatory by law nor are they aided by a lapsing of the statutes.

(In Great Britain are found none of the legal institutions that make the preparation of a budget balanced by tax revenues mandatory. The fact that the British may expect a variation in the rate of the income tax serves to bring to the foreground the incidence of any plan for a new expenditure program. Political

groups that encourage outlays must reckon with the attitude of the Chancellor of the Exchequer. Taxpayers similarly must at all times realize that the taxes that directly affect them, the tea duty and the income tax, will bring home to them the cost of any increased program. It is particularly the universality of those two levies that must be a powerful force in the support of the amazing national enthusiasm for conservation in expenditure. The public realizes how the incidence of a new expenditure program will be borne. The British system does not discourage adopting vast spending programs; nevertheless, their deficits are infrequently planned and only occasionally recurring.

There appear to be no restrictions upon the expenditure estimates that may be submitted to parliament. The budget is truly the fiscal program of the government and not the result of some required clerical compilation on the basis of existing statutes. The segregation of the unchangeable and more continuing elements of the system of the Consolidated Fund Service has already been noted. In general the comprehensiveness and unity are such that fiscal planning is not hampered by defects in the budget as a tool. The practice under which the defense services submit only lump sum estimates until the last step of their submission is one that undoubtedly relates to factors other than the immediate one of furthering a balanced budget. This is typical of the exceptions to a universal procedure. Such exceptions are negligible in their implications.

The discussion of legislative restrictions below will indicate the extent to which the government is empowered to maintain and insist upon the adoption of the program as submitted or endorsed by it. British political practice in a way tends to pose the problem as a matter of government confidence. This again adds to the importance of the formulation of the proposed budget program. It does not encourage the executive to shift to the legislature the solution of difficult problems, a practice not unknown elsewhere and all too common in the American states. The concept of an executive budget is found in its highest development, since the executive stands and falls with his fiscal program.

The Empire Group

The British dominions and the Irish Free State apparently have an attitude that is slightly different from that of the British toward the problem. Their finances have more frequently been associated with planned deficits. Nevertheless, they have procedures that can and do enable them to give to the balanced program, which the financial ministers submit to their legislatures, a better chance of survival in the parliamentary deliberations and at the hands of economic change.

In Australia the British type of ritual built around revenue proposals is still found.¹ As a feature of the government-sponsored

¹ The revenue proposals are not made known to the public until the date of the opening of the budget speech, though there is some indication that Australia does not adhere as strictly as Great Britain to the practice.

reflation program there is necessarily a greater sympathy towards deficits than has been noted in England. The Australian system, however, does not deserve to be ranked with those that recognize no administrative influences on the maintenance of a strictly balanced program or with those in which the deficits can in any reasonable measure be traced to inadequate budgetary practices. Australia's experience should be approached with a view to stressing the fact that efficient budgetary practices are not to be linked solely with economy measures.

In Canada, as in Australia, there does not appear to be traditional recognition of a variable tax element that is modified periodically to minimize borrowing. The Canadians do, however, coordinate their tax proposals and time them in relationship to the already known expenditure program. They are better prepared, than are the nations outside the British group, to establish a sound background for the maintenance of a balanced relationship. In this Dominion restrictions on a legislative initiative and modification powers place an important stamp of permanency on the proposed budget and it is therefore of great significance to know the nature of the balance that is established in the projected budget.

India, with its empire government structure and other characteristics peculiar to that far-eastern portion of the British area of control, offers little of interest on this particular question. The powers of the budget planners to dictate economic and financial policies is such that their decisions alone are significant.

New Zealand, even to a greater extent than neighboring Australia, fails to display any of the traditional British practices that result in the preparation of a balanced program. There is no evidence of a periodic tax revision for stabilization purposes. The place of such a tradition has been taken by a planned economy influence of which the public finances are but an integral part. The privilege of such an attitude is not one that the bulk of the American states are ever likely to enjoy.

In the Irish Free State, however, procedures that are favorable to solutions of the fiscal problems of the American states may be discerned. The stress on balance may be noted early in the requirement that the spending agencies may not make proposals for new and increased expenditure without prior consultation and approval of the Minister of Finance. There is a requirement that the Department of Finance make known and submit for information purposes the estimates for the Central Fund Service, over which it has no jurisdiction and which the Chamber does not review. This is indicative of the extent to which the Irish Free State procedures plan to insure the consideration by both the government and the legislature of a balanced program. The practice with respect to tax proposals is similar to that found in the other British-type jurisdictions and omits the traditional adjustment of a single tax for balancing. It should be noted,

further, that the Irish Free State is among the group that places effective restrictions on the modifications that the legislative may introduce in the fiscal program.

There is ample evidence that the various British practices in connection with preparation reflect the importance of that stage in the scheme of the public finances.

Germany

Only a few nations restrict the nature of the program that may be submitted. These restrictions are infrequent and seldom effective. Germany, while operating under the Weimar Constitution, furnished the best example. Its problem is briefly discussed. The situation in the federal government of the United States shows clearly that neither law nor tradition points the administrative or fiscal policies towards a balanced budget. This furnishes one reason why the legal background of Germany might display greater relevancy for American states.

In Germany there were attempts to restrict the types of expenditures, that the government might propose and that might tend to encourage excessive appropriations by the legislature. They were a strong feature in the various Germany economy drives and were deep rooted in the anti-inflation budget provisions. Perhaps no other national government operated with a budget system that so strongly influenced its fiscal policy as did the German Republic. Neumark has indicated that in the budget might be included only those expenditures for which executive authorizations were provided or which were necessary for the fulfillment of legally obligated duties of the Reich.² Such restrictions would require a segregation of new expenditure items and their special adoption through legislative acts upon which an extraordinary element of publicity centered. Furthermore, the Germans evolved methods of forcing the spending agencies to take into account economic conditions as fully as possible when formulating estimated needs.

For political, economic, and other reasons the new Republic could not plan to follow the British and adopt a stabilizing tax or group of taxes. Even if such a plan had been adopted the major tax revisions that continued throughout the decade during which the Weimar Constitution functioned would have overshadowed it. The Germans did, as noted elsewhere, have a restriction on borrowing which more than compensated for the absence of a constitutional mandate as a potent influence on the submission of balanced programs.

The German practice that most recommends itself is the effort to control from the earliest stages any increases in estimates. At several times the government, through executive orders, is said to have added limitations to the changes to be made in the functions for which estimates were admitted. This does not imply

² Neumark, *op. cit.*, p. 73.

that changes were not made but that those that were admitted were in keeping with economic influences, such as changing price levels, and with the exceptional fiscal pressure under which the Reich was usually operating. No definite connection between the budgetary practices and the fiscal accomplishments can be found because of the unsettled conditions. What the American states might learn is that the Germans realized that it was more important to know what was in the program and how it got there than whether the totals left a plus or a minus.

✓ United States Federal Government

In the United States federal government neither tradition nor law makes the budgetary system a contributing factor in the planning of a balanced budgetary program. The customary influences of Great Britain's system are unknown. Our President has full discretion as to whether or not he wishes to recommend estimates of expenditures needed to execute existing laws. The practice has been for the President to follow the custom of including estimates for all existing activities. Only with respect to the emergency spending and lending agencies, until recently enjoying a modified extra-budgetary status, has the President used his budget message as a vehicle for proposing changes in policy. The comments of the Committee on Federal Expenditures of the Chamber of Commerce of the United States on this question are of interest.

Estimates containing no clue regarding executive opinion as to whether certain activities should or could be eliminated are not conducive to economy. This is particularly true in view of the decided tendency of Appropriation Committees to report an appropriation for each object for which provision was made the preceding year. There is considerable reason for this, for obviously an Appropriation Committee cannot, in view of the large number of items, make full investigation of each detail and would be swamped should it attempt to do so. The result is that various expenditures are not subjected to the critical or detailed analysis which is necessary for economy and, once an appropriation for an activity has been made, there is a strong tendency for it to become perpetual even though its elimination might well be justified.

It is believed and urged that the present practice of including in the Presidential budget document estimates for all existing activities should be modified. While all existing activities might be listed, differentiation should be made between those the President believes should be continued and those which in his opinion should be eliminated.

The present practice is apparently followed for one or both of two reasons: (1) in order to avoid on the part of the Executive the appearance of infringement upon the prerogatives of Congress; and (2) the provisions of certain statutes which are interpreted to require the present procedure. The law

should be so amended as to require the President to indicate in the executive estimates any activities which in his opinion should be discontinued.³

The problem is one that need not be analyzed at length in this study. However, the "Arguments in the Negative" furnished to the readers of the above-mentioned report bring out clearly the manner in which are interrelated budgetary procedures and matters of fiscal policy tending to bring about economy and administrative efficiency. It is pointed out that our budget procedure has not successfully created a traditional concern over balanced budgets. In discussing the problem of the budget program as a vehicle for executive proposals for the discontinuance of activities the Committee reports critically that:

A course such as this would tend to introduce into the executive department an element of friction and discord. It is obvious that the President already has such burdens that he cannot go personally into all the questions of policy involved in the continuance or abandonment of the numerous activities of the government. He would have to rely principally upon his budget officer for suggested eliminations.

Discontinuance of activities, moreover, normally would involve matters of policy. They may be expected to affect members of the cabinet in their relations to their own departments; and the larger the attempted saving, the greater the effect upon the department will be. Cabinet members, not unreasonably, might consider themselves as competent as the budget officer to determine matters of policy affecting their respective departments and friction between them and the budget officer would be almost inevitable.⁴

Whatever the pros and cons may be, it is evident that no device to segregate new or increased items is used and that the federal government offers no opportunity to observe the usefulness of the device.

One of the reasons why some of the influences that may be observed in Great Britain are lacking here is that in the United States it is only with respect to the estimates conveyed to the Budget Bureau by Congress and the Supreme Court that the President legally has no choice with respect to elimination and modification. The advisory character of the President's program is best seen in this informal attitude with respect to the inclusion of expenditure items. There is, however, in the Budget and Accounting Act the provision that the President must make recommendations for removing the pending deficit, if the estimated expenditures exceed estimated revenues plus any Treasury

³ Report of the Special Committee on Federal Expenditures, op. cit., pp. 6-8.

⁴ Ibid., p. 11.

surpluses that will be available.⁶

This provision has no effectiveness in requiring the submission of a program balancing expenditures with tax revenues and specifically endorsed debts.

There is no traditional practice or any legal provision that requires the President to suggest varying tax rates or methods of reforming the federal tax system so as to increase revenues. The traditional system, if any, discourages it since tax measures are to be initiated in the House. There is no custom under which the President is expected to review tax rates periodically in order to assure adequate revenues. A recent bill, which died in the Ways and Means Committee of the House, would have given us a legal requirement to follow the British practice.⁶ In the description of the provisions of the bill, some notion is gained of the extreme ideas as to how budgetary legislation can shape fiscal policy.

In connection with this suggestion, somewhat incongruous with a planned deficit philosophy, the general question about the emphasis on expenditures comes to mind. The President submits an advisory expenditure program and relates it to his revenue estimates. For example, he does not regularly, as do the British, submit a revenue plan through the medium of the budget message. The Commerce Chamber's Committee considered the problem. Its report commented favorably on the development of the revenue features.

Up to the present executive recommendations in the budget message regarding revenues have been scanty and inadequate. About half of the budget messages contain no recommendations whatever regarding revenues. Even when recommendations do appear, they are generally contained in one short paragraph and couched in language too general to serve as a guide or to carry much conviction. No fiscal program can be complete unless the revenue aspects are fully developed.⁷

⁶ If the estimated receipts for the ensuing fiscal year contained in the Budget, on the basis of laws existing at the time the budget is transmitted, plus the estimated amounts in the Treasury at the close of the fiscal year in progress, available for expenditure in the ensuing fiscal year, are less than the estimated expenditures for the ensuing fiscal year contained in the Budget, the President in the Budget shall make recommendations to Congress for new taxes, loans, or other appropriate action to meet the estimated deficiency. Budget and Accounting Act, 42 Stat. 20, 21 (1921).

⁷ H. R. 11,895, introduced by Rep. W. D. McFarlane of Texas (Dem.) provides for amendment of the Budget and Accounting Act of 1921, as amended, to give the President authority to proclaim what increases in the income tax rates will produce revenue to meet the estimated deficiency when the estimated receipts for the ensuing fiscal year contained in the Budget, on the basis of laws existing at the time the Budget is transmitted, plus the estimated amounts in the Treasury at the close of the fiscal year in progress available for expenditure for the ensuing fiscal year, are less than the estimated expenditures for the ensuing fiscal year contained in the budget. "The Tax Magazine", Vol. 14, No. 4, May, 1936, p. 306.

⁸ Report of the Special Committee on Federal Expenditures, *op. cit.*, p. 10.

It is necessary only to glance at the Committee's "Arguments in the Negative" to see the shallowness of the best arguments that can be brought forth against any proposal to present revenue problems.

The Committee recommends that the President include in his budget message, when a deficit is expected, recommendations concerning sources to which Congress should turn for new revenue sufficient to balance the budget.

There are practical objections to such a course. As is pointed out later, in connection with the Committee's proposal to create a Budget Committee in each House of Congress, there is a pronounced tendency in Congress to regard appropriation measures as non-political, while revenue measures are commonly intensely political.

If the budget message goes into detailed revenue proposals, and so brings the political element into the forefront, it will have a natural tendency to color the whole budget with a political tinge. This would be a most unfortunate development.⁸

To view one side of the budget as political and the other as non-political is possibly at variance with the facts. It certainly typifies the worst interpretation of fiscal interests. If perchance, the statements quoted above correspond to the soundest reasoning the subject lies outside this study. Any tax provision would in any event be meaningless because of the failure to re-enforce the requirements as to the expenditure elements that the President must include within his budget. It is obvious also that the incentive towards the preparation of a carefully balanced program which the legislature could not disturb is also absent. Any expenditure or tax element could be directly legislated by Congress regardless of its relation to the submitted program. There is, however, the regulation, similar to that which is found operative in the British-type systems, that the spending agencies may not go over the head of the President as chief budget authority, in requesting appropriations. The demands for funds from existing spending agencies must conform with the Presidential policy. This explains the fact that the formulation procedure calls for the budget bureau to inform the departments regarding the tentative limits within which their first estimates must fall and in general stresses economy on the part of the regular spending agencies.

A further aspect of the problem in the United States and one which might be mentioned at this point is the distinction between the authorization of an appropriation and an appropriation itself. One statute must authorize an activity, while another must provide funds for its financing. This dual factor lessens the immediate effect that the President's recommendations may have, since various committees must cope with any new appropriation not already authorized by existing law.⁹ The President, according to the

⁸ *Ibid.*, p. 15.

⁹ See p. 438.

basic budget Act, may or may not observe the distinction in his budget message. He has generally not done so although the message is not of primary or sole consequence with regard to this matter. Willoughby discusses the problem at some length;¹⁰ as a vital issue, however, it has undoubtedly been surpassed by a host of problems related to depression and recovery finances.

Summary: The Problem in National Governments

(In a number of other nations there is extra significance attached to the budget program and to its preparation as proposed by the executive agency of the government because of the fact that there are restrictions on the types of changes that the legislature may make in its adoption. Changes that may be made are specific and refer to the budget estimates as submitted. The restrictions on changes are independent of the many procedural and other restrictions on legislative action during the voting of the budget. Such questions need not be pursued at length at this point.

The small group of nations that has been reviewed shows clearly that links, if not causal relationships, connect budgetary elements and fiscal policy. Great Britain's emphasis on revenues and its variable tax rates, its traditional attitude towards the financing problem, and the early and exhaustive control over expenditure estimates that its system provides, are but a few of the features that may be mentioned. These, together with the splendid comprehensiveness and unity of the budget appear to serve the cause of stable or balanced budgets better than any constitutional or statutory mandates. The other nations in the British Empire group offer interesting but less convincing evidence in favor of the salutary influence of budgetary traditions. Germany's fiscal experience has been such that only the logical force of its budgetary provisions as a stabilizing factor can be upheld.) There is, however, some reason to believe that some of the practices are of value in enabling the government to pursue a specific course of action.

(The United States federal government presents a budgetary rôle that differs from those of Great Britain and Germany.) There are no legislative, traditional, or procedural factors that influence the proposal of balanced budgets or of programs endowed with survivorship values. (While the American states can learn much from Great Britain and might profit from some of the devices that fiscal necessity imposed on Germany, the federal government's system offers little that the political subdivisions of this country might profitably copy in their quest for practices that would enable them more effectively to carry out the fiscal policies that they are legally required to formulate.)

A further discussion of the practices of national governments would probably not reveal any influences that budgetary procedures can exercise on the planning of balanced budget programs.

¹⁰ Willoughby, *op. cit.*, pp. 60-63.

Where the provisions categorically require the submission of a balanced program, as in many of the states, the problem is primarily one of discovering whether the system contributes to the creation of a firm foundation for the balanced relationship that is required. We have learned what are the possible elements of such a system although there has been no opportunity in relation to national units to refer to it as a procedure in which a balanced program is legally required. It is clear that the states must adequately support their balancing requirements.

The Problem in the American States

In the following pages are arrayed the provisions, usually featured as part of the budgetary system's legal framework, which dictate the balanced-budget attitude expressed in state fiscal policies. These states offer the most basic types of relationships between fiscal policy and budgetary systems. However, with few exceptions they rank with the federal government in having failed to build up traditions and methods to aid in the planning and maintenance of financial stability.

Previous discussion has hinted at the nature of the legal and institutional forces that limit the planning of unbalanced fiscal programs in state finances. The inability of executives to suggest immediately effective borrowing for general purposes, as found in all but a few states, is unquestionably the decisive factor. (There are, however, a number of statutory provisions that directly specify an equilibrium between tax revenues and expenditures in the proposed fiscal program. Some of the above-mentioned comprehensiveness clauses may also be interpreted in terms of a balancing requirement.)

Legal Requirements for the Preparation of Balanced Budget Programs

Some of the typical state provisions specifying the character of the budget are presented.¹¹ In Arkansas the Budget Committee of the Legislature (the sole example in the states of a legislative budget preparing body) must recommend changes needed in the revenue laws to adjust yields to expenditure requirements.¹² The provision, like many others, obviously refers to the property tax. California's Constitution, in which its basic budget law is embedded, specifies that the Governor must recommend new sources of revenue if existing sources are inadequate to finance proposed expenditure.¹³ For an executive a constitutional pro-

¹¹ A few states have provisions dealing with the action to be proposed for that portion of the fiscal period which is as yet not completed when the budget program is submitted. For example, in Alabama the Governor is required to recommend measures to be taken by the legislature in order to deal with deficits (or surpluses) of the current quadrennium. Such provisions are not analyzed in connection with budget preparation.

¹² Ark. Acts (1921), c. VI, § 4942.

¹³ Cal. Const. art. IV, § 34.

vision is hardly more binding at any stated time than a statutory one. There is no opportunity for revision prior to the meeting of the legislature. Only a way of assuring yields, as specified in the revenue estimates, would be a definite measure. In Georgia the statutes specifically state with regard to the submission of the budget: "If the proposed expenditures for either fiscal year shall exceed the estimated revenues therefor, the Governor shall recommend the sources from which the additional revenues shall be provided."¹⁴ Michigan offers an example of a state in which the balanced relationship is required and in which there appears to be the usual disregard of the nature of the revenue forecasts.¹⁵ Prior to 1933, the State property tax rate, allowing for estimated delinquencies, was set at a level considered sufficient to balance the budget. It is still mandatory for the Governor to submit a balanced program but there is no recognition of the fact that estimates may be too optimistic and that the property tax yields may not equal the amounts levied. The Nevada statute is explicit regarding the revenue estimates that may be used to measure the balance.¹⁶ There is, however, no mention of how the estimates are prepared. Nothing prevents or discourages an over-optimistic forecast of tax yields other than those derived from property taxes.

Several other variations of the provisions tending to insure the submission of a tax-financed outlay plan may be noted. A New Mexico law refers to available revenue which the proposed expenditures must not exceed.¹⁷ North Carolina tries to insure a balance at each step of the two stages in the preparation of its program. The Governor must submit recommendations for new revenue. The Director of the Budget must submit budget bills that specify tax revenues in sufficient amounts to meet the proposed appropriations.¹⁸ The Rhode Island statute comes right to the point.

In case a deficit immediate or prospective is shown in said report (refers to report of Commissioner based on submitted estimates) said Commissioner shall include in said report his recommendation concerning the manner in which to remove said deficit.¹⁹

In South Dakota the statute specifically refers to the property tax and would be meaningless in reference to any other levy not similar in structure. According to the provisions dealing with the formulation of the fiscal program, the Secretary of Finance

¹⁴ Ga. Code and Dig. (Skillman, Supp. 1931) c. 40, § 3.

¹⁵ Mich. Pub. Acts, 1933, No. 187, § 216.

¹⁶ Total appropriations made or expenditures authorized by the budget must not exceed estimated revenues from taxes, fees or other sources in the next biennium, which estimates shall be furnished to the Governor by the State Auditor at least six months prior to the convening of the state legislature in regular session. Nev. Stat. (1921), c. 45 as amended.

¹⁷ N. M. Laws (1921), c. 133.

¹⁸ N. C. code ann. (Michie, 1915), § 7486 v.

¹⁹ R. I. Pub. Laws (1929), c. 1349, art. 7 (amended).

is required to prepare for the Governor a report showing, among other data, the aggregate amount necessary to be raised by a tax levy and the millage necessary to produce such an amount.²⁰

These legal requirements, chosen at random to describe the nature of some of the typical provisions, leave no doubt as to their purpose. They have built up a belief that those in charge of state finances seldom entertain a thought of any planned deficits, although there is, as has been indicated, none too careful an effort properly to define a deficit. A few states, such as New York, apparently do not have any budgetary provisions that implicitly require the submission of a balanced program. The limitations on borrowing, which are pointed out elsewhere, alone determine the tax revenue-expenditure relationship in the Governor's budget program.

A popular description of the Pennsylvania State budgetary system by one of the State's officials shows clearly the manner in which the submission of a balanced budget is considered to be the only possible line of duty for the Governor.

When the Governor has established a tentative program he compares the total of the appropriation recommendations supporting it to the total estimated receipts. If it is much less than the estimated receipts the Governor may recommend the reduction of taxes. If it is almost equal to the estimated receipts, the budget is balanced. If it is greater than the estimated receipts the Governor is faced with two alternatives—the further deletion of items from this program or the inclusion in it of a recommendation for the increase of revenues.²¹

The reference to surpluses was of academic interest at the time the survey was written.

Legal Requirements and Actual Practice

Where a state has failed to be specific in its requirements students of its financial system have not hesitated to recommend a specified provision. Commenting on the law that was in force and on its own recommendations the Brookings Institution Report on Oklahoma states:

The present law does not require the Governor to make recommendations to the legislature in respect to the manner in which the budget is to be financed other than the inclusion of an estimate of revenue available to finance his appropriation proposals.

In the case of a deficit, the law should require the Governor to supply the legislature with his recommendations as to how the deficit shall be met, whether by the imposition of new

²⁰ *Budget System of South Dakota* unpublished survey prepared for the writer by Dr. Charles W. Pugsley, Consultant, South Dakota State Planning Board, June 1935, p. 3.

²¹ U. C. Townsend *The State Governmental Budget and its Place in the Present Fiscal Structure* (Harrisburg, 1930), p. 5.

taxes, increased rates on existing taxes, or otherwise; and if the aggregate of the estimated revenues, plus estimated available balances in the Treasury is greater than his recommended appropriations for the ensuing biennial period, he should be required to make recommendations with reference to the application of such surplus to the reduction of debt or otherwise, to the reduction of taxation, or such other action as in his opinion is in the interest of the public welfare.²²

The concern over surpluses and their disposition is of ever decreasing importance with the concurrent growth of the states' sphere of financial activity and the introduction of tax rate limits, exemptions, and similar restrictive financing devices. The task confronting budget making officials is clear. There is no tradition to maintain but a clearly defined mandatory requirement in its place. The fact that no borrowing is encouraged or permitted, and that a number of states require a deficit of one budget period to be carried as an expenditure item in the next, indicates further that the balanced relationship in the proposed program is intended as a durable and working one.

It should not for a moment be assumed that strict attention is always paid to the legal requirements. By neglecting revenues as well as by other ways of disturbing the comprehensiveness and unity of the budget systems, provisions such as those cited above are rendered meaningless. The following citation from the Brookings Institution's survey of Mississippi will aid in clarifying this example against any misinterpretation of the sanctity of the legal basis for budget practices. The survey notes:

the law requires that the budget shall be a balanced statement. It makes it "the duty of the Governor" to include in the budget document "a statement in detail of the estimated sources of revenue prepared by the Governor, which will provide the total amount of the appropriation requested." This can only mean requested by the Governor after his revision; for it is unthinkable that the requests coming from the state officers and institutions will ever amount to less than the prospective revenue. Yet, in the three budgets available to use for examination, no Governor has obeyed this injunction, and until 1930 no Governor included in the budget document an estimate of prospective revenues.²³

✓ Summary: Budgetary Systems and Fiscal Policy

If we assume the existence of adverse economic conditions and of the usual political "institutions" the tasks that the budget system must perform are evident. (Revenue estimates must be reliable. It is even essential that they be even more accurate than in the case of national governments. Expenditure estimates must anticipate actual costs of proposed functions. If the executive is

²² Brookings Institution, *Oklahoma Survey, op. cit.*, p. 239.

²³ Brookings Institution, *Mississippi Survey, op. cit.*, p. 358.

responsible for their financing he should enjoy the power and have the opportunity to extend the scope of his planning to all outlays. The latter also must not be considered as stable and uniform or unrelated to future developments. The biennial budget periods place a most difficult burden on those charged with the formulative duties. Virginia, for instance, demands that its officials forecast fiscal developments for a period of two years, this to be done no closer than six months prior to the beginning of the biennium. In the states that require the liquidation of deficits of previous bienniums the budget officials must forecast the accomplishments of the period in which their work is being done. The task is unduly complicated and there is no question as to the superior efficiency of the administrative practices that should be provided. Few states can be exempted from this generalization. The absence of comprehensive and unified budget systems has already been stressed. Procedural defects will become evident in the discussion that follows.

CHAPTER XXIII

BUDGET PREPARING AGENCIES IN NATIONAL GOVERNMENTS

Executive Budgetary Systems in National Governments

The literature, discussions and action on budgets over several decades have been replete with efforts to adopt budgetary systems calling for formulation of the fiscal program by the executive agency of the government, acting independently of the legislative body. The general problem of fiscal science was not at the time concerned with wholesale attacks on the rôle of legislative bodies in modern governments. The reform movement did not ride on the crest of interest in totalitarian dictatorships or in emergency and crisis-born delegations of legislative power to executives.¹ The reform problem was concerned solely, as is this study, with problems of fiscal efficiency.

Although elements of adoption and execution are involved the problem is primarily one of executive preparation of the budget. In terms of the American states the problem has ceased to become a burning issue since a legal basis for some form of executive budget has been introduced into a great majority of the commonwealths. In such cases where actual practice does not conform to the theoretical standards set by the legal basis the problem is not one that can be solved solely by further legislation on the subject.

In national governments the phenomenon of executive leadership in the periodic preparation of the fiscal program is not a new development. Among leading nations only the United States had postponed until the third decade of the twentieth century its legalized acceptance of the practice. The problem, in terms of national governments, assumes a somewhat different aspect than in the states for reasons other than that of historical development. National governments are provided with a high ranking fiscal official other than their chief executive. The relation of this official, known as the Minister of Finance, the Secretary of the Treasury, or the Chancellor of the Exchequer, to other high public officials and to the chief executive is not comparable to the relative position of an American state budget officer. Other differences growing out of the varying scope and complexity of representative national and state finances add to the changed emphasis that must be accorded discussions of national and state budget practices in the preparatory stage. Some further elements of the executive budget movement and its relation to the problem of fiscal efficiency will be discussed when the practices of the states are reviewed.

¹ See Lindsay Rogers, *Crisis Government* (New York, 1934), *passim*.

✓ Great Britain

It has been a useful practice to begin the discussion with an analysis of the methods found in Great Britain and in the British Empire group. This aids in indicating a reasonable standard of conformity.

It is in the British Empire budget systems that an extremely effective development of the executive budget principle has been found. The powers and duties of the executive agency with respect to the fiscal program are very extensive. They are in many ways similar to those that might be expected in a form of government in which the power of the legislature in all matters had been drastically reduced. A successful method of distributing the various duties and responsibilities among several governmental agencies is found. Within the scope of the Treasury, the unit designed to cope with the financial problem of the Kingdom, no single body appears to be officially charged with preparing the budget. A similarity to our own federal arrangement, but a sharp contrast to continental practices, may be noted. The British method, however, represents a departure from the American federal scheme in which the actual work of supervision is handled by an executive officer acting independently of the permanent tax collecting, accounting and other financial agencies devoted to the fiscal needs of the government. The important rôle that the Chancellor of the Exchequer plays in taking the responsibility for the fiscal program recommended by him to Parliament has undoubtedly been a factor in the development of a plan in which the Chancellor himself, with the assistance of the Financial Secretary, supervises all preparation.² For purposes of administration the Controller of Finance and Supply Services and the Controller of Establishments have much of the actual duties, particularly in connection with expenditures.

It is a feature of the British system that great reliance is placed in executive judgment. As stated by an authority on financial administration, the British feel that balancing the revenues and expenditures is a delicate operation and that the executive is the only one equipped with the double knowledge necessary.³ The power of the executive is best seen in connection with expenditure estimates. The influence of the Treasury is not corrective or supervisory, but is felt in the actual preparation of the initial expenditure estimates which the departments and other spending agencies must submit. As observed by two American students of British procedures, the outstanding feature of the British system

² Shirras points out that the Chancellor of the Exchequer appoints the head official (Comptroller General) of the Exchequer, but has little to do with the operations of that agency. He has only those powers which accrue to him as head of the Treasury. G. Findlay Shirras, *Public Finance*, 3rd ed., Vol. II, (London, 1936), p. 945.

³ E. Hilton Young, *The System of National Finance* (London, 1924), p. 40.

is that "powers of the Treasury are exerted before, not after, the estimates for the several services are received by it."⁴ The Treasury works with the departments all year round on proposed changes and on general policy matters. In the case of differences between the spending agencies and the Treasury the latter is to have the last word. Young further observes that "in general the Treasury characterizes, suggests and amends any differences of opinion with the department which prepares the estimates, it has the last word."⁵ In the final analysis, the Cabinet is called upon to settle disputes although the system depends largely on the planning ability of the Chancellor. The British method of allocating powers and duties of budget preparation to the agencies best prepared to guide the fiscal program through the legislature and to its subsequent execution is obviously a highly desirable one. Students of government, furthermore, have not failed to stress that the British have successfully met the general problem of government personnel with their system of permanent under-secretaries. While the broader phases of financial programs are undoubtedly linked to the dominating ideas of the political party or parties in power, there is no periodic sweeping change in personnel, affecting also the budget-preparing agency. As a result there is found a permanent body of experts, well qualified for their positions and benefiting from the experiences of past successes and errors.

The staffing of the agency responsible for preparing the fiscal program is in keeping with the vast powers allocated to this agency in connection therewith.

The Empire Group

It is not surprising that the British dominions and the Irish Free State have procedures closely following that of the United Kingdom, deviating from it only in conformity with their own circumstances. From the point of view of the primary problem of this study and of fiscal efficiency in general the best qualities of the British system can be recognized.

In Australia and New Zealand the preparatory and other budget functions are administered by the Treasury under the supervision of the Minister of Finance. In Canada the duties are carried out by the agency that is concerned at all stages with fiscal development, namely the Department of Finance. The Minister of Finance heading this department supervises all the preparatory functions and, as in England, this official forms the program, prepares the estimates, delivers to Parliament the budget speech, and is responsible for the budget program at all stages.

In India the budget program finally put into effect is virtually that which the government wishes to provide. The burden of planning falls on the Finance Department. The allocation of some preparatory functions to the Administrative Department

⁴ Willoughby, Willoughby, and Lindsay, *op. cit.*, p. 47.

⁵ Young, *op. cit.*, p. 25.

of the Government is understandable in terms of the non-fiscal control exercised through the funds.

In the Irish Free State the typical British system of distribution of duties is found. The Department of Finance under the Minister of Finance carries out the various functions on much the same basis found in the other British-type systems. The work of the Departments begins at the earliest preparatory stages and estimates are prepared with Treasury coöperation rather than for subsequent independent Treasury approval or disapproval. Preparation is also coördinated with execution.⁶ The Irish have also provided for continuity in the offices in which budget duties are concentrated.⁷

In the Union of South Africa the Treasury Department, under the supervision of the Minister of Finance, carries out all budgetary duties. The concentration of power with regard to financial planning, which is typical of the Empire systems, is found also in the South African Union.⁸

As far as their institutional backgrounds permit, the various members of the British Empire appear to have the best features of the English system. One central agency is given the power to plan all phases of the fiscal program. Its duties are primarily concerned with controlling and policy-making functions, work that characterizes the principal function of budget-preparing

⁶ The Accounting Officer of each Department is one of the chief pivots in the whole financial system of the State. He is appointed in each case by the Minister for Finance and not by the Minister of the Department concerned. He should be an official of the highest standing in the Department seeing that by virtue of his functions, in accounting for the Grant he must supervise and control the work of compiling the Accounts. This does not mean that the Accounting Officer must be a technical Accountant—the two terms are not synonymous—or that he must have a technical knowledge of Accounting. Some general knowledge of accounts he must, of course, possess, because otherwise his signature to the Accounts would be merely an empty formula, and his supervision over his subordinates nugatory. But the term "Accounting Officer" and not that of Accountant seems to have been deliberately chosen to indicate that the Accounting Officer is the one official in whom the finance of the Department centres and who is directly responsible for seeing that the Grant is expended in the manner and for the purpose for which it was originally voted by the Dail. O'Connell, *op. cit.*, p. 43.

⁷ The Minister is a bird of passage, and owing to the temporary character of his tenure of office, and in view also of the fact that a large portion of his time is occupied with his duties as minister of State and as a member of the Dail, it is not possible for him to devote the time necessary for supervising the detailed and tedious work of accounting for the grant voted by the Dail. That work is, therefore, entrusted not to the Minister but usually to the permanent head or Secretary of the Department, who in this capacity is known as the Accounting Officer. *Ibid.*

⁸ The sanction of the Treasury is necessary before it is possible to introduce in these estimates any increase in the number of officials (permanent or temporary) provided for under the budget of the previous year, or any increase in the scales of salary of serving officials or any new works or services, or, lastly, any increase in the credit authorized for works or services actually proceeding. *L. of N., Tech. Comm., op. cit.*, Vol. III, p. 41.

agencies in other jurisdictions. The power of the Cabinet stands behind the work of the Minister of Finance. Well coördinated programs, which have had the greatest benefit from authoritative supervision and intra-governmental coöperation, are laid before the Parliaments.

✓United States Federal Government

In the group of nations next discussed the chief budget preparing agency is nominally independent of the financial or treasury department of the government. The difference may be significant if the arrangements foster an unwarranted expenditure emphasis.

In the United States a development is found under which a separate agency, officially independent of the Treasury Department, is in charge of the preparatory functions relating to the budget. A somewhat similar distribution is found only in Greece, Italy, and Sweden among the nations whose systems provide an agency other than the Ministry of Finance to assist in the formulation of the fiscal program and to play some active part in carrying out the adopted program. The French have at several times during the post-war decade provided for an official, other than the Finance Minister, to prepare the budget program. Unlike the equivalent United States official, he was not concerned primarily with expenditures. In all events the position of Minister for the Budget has been abolished and France need not now be included in the above-mentioned group.

The federal Bureau of the Budget, set up under the basic 1921 budget law, is charged with preparing the program that the President submits to Congress. The functions of the Budget Bureau are largely restricted to these duties, although the allotment of voted appropriations is also part of its program. Even though the Bureau works in coöperation with Treasury officials and is housed in the Treasury department, it is directly under the control of the President. The Director of the Budget is not considered to be a Treasury officer. Under President Roosevelt the appointment of a high ranking Treasury official as Acting Budget Director has informally modified the relations of the Budget Bureau to the Treasury. A leading political commentator has thus described the change that resulted from the resignation of Mr. Lewis Douglas as head of the Budget Bureau.

When Mr. Douglas was Director of the Budget it was an independent government bureau, responsible solely and directly to the President. The Director held Cabinet rank. Even after a growing conflict over fiscal and economic policies resulted in the elimination of Mr. Douglas from the "bedside Cabinet" of three, the Director was a government official of the first magnitude. The Secretary of the Treasury was his equal in rank, not his superior. Now the Acting Director is a member of the Treasury staff, and, even if his headship

of the bureau is made permanent, he will carry out the President's commands and policies through Mr. Morgenthau.⁹

The change may mean that a permanent emphasis on expenditure-revenue relations will become a feature of the Budget Bureau's activities. The Budget Act provides primarily for an expenditure agency.

The Bureau publishes its own annual report and is not officially connected with the Treasury. The separation serves many useful functions and has eliminated the necessity for burdening the Treasury Department with much work outside its own immediate and elaborated field of activity. The Bureau, however, is not an agency concerned with the actual functioning of departments or with tax collections and is, therefore, not as ably equipped to understand and analyze the estimates submitted to it and to appreciate the coördination of expenditure and revenue estimates as would be an agency such as the Treasury. The segregation of Treasury and budget functions is not, as has been indicated, a feature of the British-type systems.

The Bureau has no authority conferred on it directly. All grants of its powers are made to the President who appoints the Director of the Budget. Willoughby points out that this was done because it was desired that the whole responsibility should rest on the President and because Congress was afraid the Budget Director would loom as a super-Cabinet officer.¹⁰ The law provides for the appointment of the Director by the President. The confirmation of the Senate is not required.

Recommendations for Improving Federal Methods

Several recommendations for modifying the Budget Bureau have been made. One of these points in the direction of having the Budget Bureau enter the preparation of expenditure estimates, by the spending agencies, at an earlier stage. The desirability of this practice is self-evident. At present each federal agency prepares estimates basically in proportion to its needs. Those in charge of the estimates cannot be expected to base much of their calculations either on the needs of other agencies or on the general fiscal picture unless there is coercive enforcement machinery. In the Budget and Accounting Act it is provided that "the head of each department and establishment shall designate an official therein as a budget officer thereof, who, in each year of his direction and on or before the date fixed by him, shall prepare the departmental estimates." It will be noted that this officer is an official of the spending agency rather than of the Budget Bureau. Therefore, one must assume a willingness to cooperate with the President and the Budget Bureau, a condition that would be more likely to exist if the official had a closer link to the budget making body. Furthermore, the rank that the budget official in the spending agency holds is not high enough to give

⁹ N. Y. Times, Oct. 30, 1934. "In Washington," by Arthur Krock.

¹⁰ Willoughby, *op. cit.*, p. 39.

his opinions sufficient authority. With this in mind a recommendation has been made by the United States Chamber of Commerce that the "budget officer have a rank not less than Assistant Secretary in the departments and a corresponding rank in the independent offices."¹¹

The resignation of Mr. Lewis Douglas in 1934 involved the rare spectacle of a Budget Director resigning because he held views differing basically from those of the President. There was undoubtedly a period during which a conflict of ideas reigned before the resignation of this officer took place. Such a condition would not be likely to exist in England, and is not naturally one that is conducive to the best harmony in the preparation of the annual budget program.

Congressional committee members play a large rôle in the formulation of budget plans. Political expediency rather than expert advice undoubtedly motivates the practice. An interesting result is that the legislators are frequently willing to speak publicly on matters which the President, his Budget Bureau, and the Treasury keep secret until the budget is submitted.

The federal arrangement results in a condition in which the preparation of revenue estimates is not as clearly allocated as in Great Britain. Willoughby indicates that the First Executive Order of November 8, 1921 placed the burden of estimating revenue yields on the Secretary of the Treasury.¹²

The first budget submitted under the new Act mirrored this policy. Willoughby believes that the order has not been formally revoked, and that the data are furnished by the Secretary and modified by the President and his Bureau of the Budget, if deemed advisable. What is important is that there appears to be no traditional or statutory acceptance of responsibility and a somewhat liberal possibility for modification in terms of individual influence in high ranking quarters. The actual work in the Treasury proper is under the supervision of the government actuary, who is assisted by the experts and technicians of the Treasury's Division of Research and Statistics. The Budget Bureau is neither expected nor equipped to make contributions of its own toward the review of the revenue estimating problem. As indicated above, the appointment of a Treasury official as head of the Budget Bureau eliminates any doubts as to coöperation. Independent estimating, found most frequently in the case of new or proposed legislation, is made by the staff of the influential Joint Congressional Taxation Committees. There is no indication that

¹¹ *Report of Special Committee on Federal Expenditure, op. cit.*, p. 10. It would be desirable if permanency of high ranking budget bureau officials could be secured and if a large portion of their work could be removed from the changeable political sphere. An interesting development has been recently noted in the fact that a high ranking Treasury civil service official, appointed as acting director of the Budget Bureau, is said to have continued in that position because of a desire not to lose his civil service status in the Treasury.

¹² Willoughby, *op. cit.*, p. 88.

their coöperation with the Treasury forms part of the regular estimating scheme.

The recent report of the President's Committee on Administrative Management devotes a great deal of attention to the Bureau of the Budget and the functions allocated to it. The report refers to the increasing importance of the Bureau as an element of national budgeting and administrative control. There are two main features of the recommendations that are of interest in connection with budget preparation. The first is the proposal that the Bureau's activities be extended to comprehend general administrative and financial problems. The report notes:

The President needs a research agency to investigate the broad problems involved in the administrative management of the government—problems of administrative organization, finance, coördination, procedures and methods of work, and the many technical aspects of management. The function of investigation and research into administrative problems should be developed as an aid to over-all executive management.¹³

It is evident that budget planning is not merely a technical job of statistical compilation. As the report points out, "economy and efficiency require constant investigation and reorganization of the administrative structure."¹⁴ For this reason it is desirable that there be permanent machinery for such studies and that the financial aspects be kept in the forefront. There is no doubt that it is the purpose of the budget system, of which the Bureau of the Budget is an important feature, to provide the fiscal interpretations of all the planning and informational duties assigned to the President.

The second feature of the report, which is of interest in connection with budgetary formulation questions, deals with the staffing of the Bureau. It is pointed out that the:

highly important task of budgeting requires a staff of unusual competence, breadth of vision, keen insight into governmental problems, and long acquaintance with the work of the government. Only a staff having these qualifications can be of assistance to the President, to Congress and to the departments in the preparation and consideration of a budget. Well-considered and informed central direction of budgeting is essential; arbitrary uninformed and indiscriminating decisions must be avoided.¹⁵

There can be little disagreement regarding the qualifications of an agency that is to prepare budget programs for the United States. The scope of our finances and the dynamic character of its economy and its policies need not be re-emphasized in connection therewith. Nevertheless, the federal government can be

¹³ *Report of the President's Committee on Administrative Management*. (Washington, 1937), p. 18.

¹⁴ *Ibid.*

¹⁵ *Ibid.*

accused of the same delinquency as the states in failing adequately to staff, and finance its budget agency. The report notes that the Bureau has not:

achieved or even approximated its maximum possible usefulness and effectiveness as an instrument of administrative management. Because of its small operating appropriation, the Bureau has failed to develop an adequate staff of the highest attainable competence. One obtains a vivid realization of the inadequate staff of the Bureau of the Budget from the fact that its appropriation for the fiscal year ending June 30, 1937 amounted to only \$187,000—a sum considerably less than is spent by a single finance and accounting division of some of the large government departments, and less than 3 per cent of the amount required to audit the expenditures. It has a total personnel of only forty-five and, aside from the statutory positions of Director and Assistant Director, has only two positions compensated in excess of \$6,000 per annum. Only \$18,700 was provided for research surveys and assistance. Yet this small staff is charged with preparing a budget of billions.¹⁶

There is no doubt that the importance of the preparatory functions have not been appreciated. The publicity that the report gives to this fact is praiseworthy. Problems of revenue measures and estimating are not mentioned nor are the Budget Bureau's relations with the Treasury developed. Certain suggestions with respect to accounting and expenditure control would further develop the efficiency of the Bureau's budget preparation functions.

With regard both to its present status and to the suggestions for its improvement, the Bureau of the Budget offers a fruitful field of study for students of state finances. Differences that must be kept in mind are essentially those of degree and not of kind.

Independent Budget Preparing Agencies in European Nations

Greece deserves mention among the continental countries noted as having an independent or semi-independent budget agency.¹⁷ The preparatory function in this small country is wisely linked to the accounting offices of the nation, namely that of the Director General of Public Accounting. The Director of the Budget

¹⁶ *Ibid.*, pp. 16-17.

¹⁷ No effort has been made to recognize the fact that in a few nations the Ministers of Finance have at their disposal permanent bodies which aid in the formulation of budget programs. Commenting on these agencies in France Jacomet notes: "The finance minister is often assisted in his duties by permanent bureaus: the Budget and Treasury Councils in Belgium, the Finance Council in Egypt, the General Budget Bureau in Portugal, and the Council of State in The Netherlands. The existence of these bodies helps bring about a harmony in viewpoints in the planning of successive budget programs." (Translated.) W. R. Jacomet *Les Budgets: Le Contrôle de leur Exécution*, (Paris, 1935) p. 14.

is attached to this office. This facilitates the emphasis on economy necessary in the poorer nations having limited internal and external borrowing power.

The independent agency method may also be observed in Italy. There the office known as the *Ragioneria Generale dello Stato* is charged with preparation of the budget. This body likewise fulfills the accounting duties. Although attached to the Ministry of Finance it appears to be somewhat independent with respect to its structural make-up. There exists of course in Italy, by virtue of the single party form of government, no question of ministerial opposition or of a failure to coördinate departmental finances with those of the national government. In Italy budget estimates of expenditures are prepared not by officers of the spending agency but by an officer of a *R.G.d.S.* unit attached to each Ministry for which a budget category is set up.

In Sweden the existence of a Budget Bureau outside the Ministry of Finance is recognized. Unlike the system found in Greece, the State accounting bureau is concerned with the revenue rather than the expenditure estimates. It will be noted that the budget message is nominally made by the King and is analogous to the delivery of the speech by the President rather than by his Minister of Finance.

From a survey made by the League of Nations Disarmament experts it is evident that the small Baltic nation, Esthonia, should also be included among the groups that have placed budgetary powers in the hands of officials other than those responsible for the conduct of treasury affairs.¹⁸ It is questionable whether Switzerland should also be included.¹⁹

The independent budget agency plan has its advantages in that an agency divorced from the treasury may represent a broader viewpoint in governmental matters. Financial planning is not a simple task. Any agency not conflicting with the regular finance ministry and complementing its work, is desirable. Otherwise the absence of a proper emphasis on revenues and financing problems may be the result.

The majority of the nations follow Great Britain in making their ranking financial officer responsible for the preparation of the

¹⁸ The draft budgets are prepared by the various Ministerial Departments. A Commission for the examination and co-ordination of such draft budgets is set up at the Ministry for Economic Affairs; it consists of representatives of that Ministry, the other Ministries concerned and the State Comptroller's Department. The representative of the Ministry for Economic Affairs is required to verify whether the estimated expenditure is necessary and in accordance with the laws in force; he may propose that certain items be reduced or entirely struck out. In the event of a difference of opinion between the Minister of Economic Affairs and his colleagues, the provisions of the draft budget are finally settled by the Government as a whole. *L. of N., Tech. Comm., op. cit., Vol. III, p. 123.*

¹⁹ Buck notes that the Swiss Federal Council is charged with the budgetary functions. (Buck II, *op. cit.*, p. 24.) The Council acting as a "plural executive" is assisted by the head of the Finance Department.

budget. In France the present procedure calls for preparation and execution of the budget solely under the jurisdiction of the Minister of Finance. As has been mentioned, a Minister of the Budget was included in several post-war cabinets until 1934. His duties were primarily the preparation of the budget submitted to Parliament. It is probable that a somewhat greater degree of efficiency and thoroughness could have been accomplished by this ranking cabinet officer, concerned solely with coordinating the financial interests of the various agencies. The post was abolished, no doubt, for reasons other than those of governmental efficiency.

France does not, however, give to the Minister of Finance all the powers that officials elsewhere occasionally have. Although one of the laws adopted during the inflation period²⁰ greatly enhanced the powers of the Minister with respect to the preparation of the expenditure estimates, he may not, solely on his own volition, change the estimates submitted to him by the other Ministers. He does possess power to require general reductions, the exact character of which the Ministers may determine themselves. As in Germany under the Republic, the Budget Commission of the Legislature has powers (extended over the entire budget program) which cannot be neglected as a feature of the budget's formulation.

Countries Allocating Budget Preparing Duties to Finance Ministers

In the other nations a wide variety of methods of assigning preparatory duties is found. In all countries they center around the Minister of Finance. In Belgium there is no indication that any high officer other than the Minister of Finance is concerned with the preparation of the budget. Here exists an interesting Advisory Committee of officials in many respects not dissimilar to one that has functioned in New York and a few other states. The so-called *Comité du Budget* functions on a recognized legal status.²¹ The creation of this *Comité* does not involve any departure from the executive budget principle, since the advisory body does not comprise, as it does in one or two jurisdictions, members of the legislature.

In Denmark and in Germany the budget preparation functions are allocated directly to the Minister of Finance and a review of fiscal history, at least in Germany, has shown deep concern with budgetary problems. However, in neither of these countries is the preparation of estimates carried out under the supervision of Finance Ministry officials. In Denmark the Minister of Finance reviews departmental estimates, and following inter-Ministerial conferences on questioned items, proposes the finance acts. These are submitted by him but the other Ministers may after consultation with the Finance Minister submit separate estimates. These proposals are in practice supported by the Finance Minister who is said to tolerate them in order to convey divergent

²⁰ Law of June 27, 1925.

²¹ Law of Dec. 18, 1930.

viewpoints. In Germany it may be specifically noted that expenditures were prepared individually by the authorities who were to be subsequently empowered to execute the adopted spending program. In the post-inflation period the need for a changed preparation arrangement was less evident than might have been expected, because of the fact that government decrees limited the possibility of any individual action on the part of the Ministers preparing outlay estimates for their departments.

Neumark has indicated that during the period of the Republic the German Finance Minister exercised a power exceeding that of individual Ministers as far as financial matters were concerned.²² Specifically he was empowered to make changes in estimates as submitted. It was only the united action of the other Ministers that could modify his changes in their recommendations.

The Chancellor of the Reich and the Minister of Finance together were stronger than any of the other Ministers, thus enforcing the executive power over budget making. It is unfortunate that economic and fiscal conditions have obscured the possibility of isolating the true effectiveness of many of Germany's practices, for from a logical point of view they are adaptable to the type of problem with which modern fiscal systems must cope. One finds that the original submission of estimates by the individual Ministers in Germany forms the most important feature of the preparatory stage. On the basis of these estimates the Minister of Finance must achieve his goal of balancing the budget, taking into account his knowledge of the fiscal and political viewpoints which will control subsequent action on the part of the other Ministers. The set-up calls for a man of exceptional financial, political, and diplomatic ability. The condition is not unlike that found in the United States, where the Budget Bureau stands between the independent spending agencies and Congress. Germany offers many examples of the struggles between the Finance Minister and others on account of the reduction of estimates. This aids in gaining an appreciation of the value of the British practice of early treasury action in the preparation of expenditure estimates.

A development of great interest took place during the early months of the National-Socialist regime, although its character is not necessarily linked to the breakdown of democratic institutions associated with that regime. According to the Decree of Dec. 13, 1933, the German Court of Accounts, a judicial auditing body such as is found in several continental countries, was called upon to assist the Minister of Finance in the compilation of the expenditure estimates. The Minister was required to communicate to the Cabinet all recommendations made by the Court. In view of the wide experience of the Court in questions of governmental costs the step represents a sensible development towards the goal of efficient estimate preparation. Elsewhere has been noted the link between auditing and budget preparing functions, one which may shortly be introduced into the United States federal government.

²² Neumark, *op. cit.*, p. 67.

A brief review of the remaining countries that have been surveyed indicates no noteworthy elements. In Hungary and the Netherlands, the usual procedure in respect to the grouping of functions under the Ministry of Finance, the individual preparation of estimates by the Ministers in charge of spending agencies, the arrangements for inter-ministerial negotiations, and the submission of the budget by the Finance Minister, are noted. An identical procedure is outlined for Rumania and Turkey. In none of these nations does an official of the Ministry of Finance appear to be actively associated with the preparation of the expenditure estimates.

In Russia an interesting scheme is in force. It appears well-adapted to the Soviet Union's particular type of economy, political structure, and federated union problems. The Union's Commissariat of Finance and the various Commissariats of the Constituent Republic prepare the estimates. Consultations with the heads of other departments are essential in Russia because the budget is more than a mere financial program. Ultimate power rests with the powerful Council of the People's Commissars which is advised by the Planning Commission of the Union. The Union budget and those of the Republics are finally integrated. This step and the distribution of powers that it involves has been described to the writer by a Russian authority as follows:

If a republic's budget is real (that is, if the prospective revenues and expenses are rightly estimated) and conforms to the plan of national economy * and to the Union's (budget) laws and if it is "balanced" (*with-deficit*), it is included in the united budget without changes. If any of these conditions is not maintained, the Union's "Sovnarkom" makes *corrections*, which are related to the republic's government; in the case of their dissent the matter is finally set by the "Union's Executive Committee"†. As a matter of fact the budgets of the Republics are often subjected to substantial changes.²³

✓ Summary and Conclusions

The survey of some representative national practices has brought out several developments which are of interest to the general budget reform problem. There are, however, basic structural differences in national governments, such as the executive authority of Cabinets. A variation is noted in connection with the single executive (Governor) of the American states. It is around him that the

* That is, if it includes its assigned participation to the Union's industrial and agricultural investments.

† The "Union's" Central Executive Committee (ZIK-USSR) and the Republican Central Executive Committees act between two sessions (not annual, usually triennial) of the respective "Assemblies of Soviets," as legislative bodies; the "Sovnarkoms" are the executive power.

²³ *The Budget System of the U.S.S.R.*, unpublished survey prepared for the present writer by Dr. V. Tverdokhlebov, Leningrad, Feb., 1936, pp. 5-6.

executive budget movement has centered. The prominence of ranking financial department heads is not strictly analogous.

Some procedures applicable to all jurisdictions may be cited. One involves the concentration and centralization of power. As a feature of this practice the earliest active participation of the budgetary authorities in the preparation of estimates is desired. There are evident disadvantages in the restriction of budget officials in their functions to a compilation of proposals formulated by others.

Another disadvantage is evident in the case of the jurisdictions in which budget planning is divorced from the administration of the finances, particularly tax and other revenue administration. The British emphasis on revenues in connection with the periodic review of the finances contrasts sharply with the federal practice in this country. The nature of the agency that prepares the budget undoubtedly contributes to this situation.

The linking of preparation and execution functions, the existence of a permanent trained body of ranking officials, and a host of minor devices which stress fiscal efficiency rather than political expediency, may be noted. It is evident that some jurisdictions provide for agencies that are better equipped to fulfill the important preparation functions than are others.

CHAPTER XXIV

BUDGET-PREPARING AGENCIES IN AMERICAN STATE GOVERNMENTS

Executive Budget Reform

The most important element in the wave of budgetary reform that swept the states in the second and third decade of the twentieth century was the introduction of the executive budget. For immediate purposes this may be defined in terms of vesting in the Governor the responsibility for the preparation of the budget program. (An executive budget system may also grant to the Governor special powers with respect to the adoption and execution of the budget program.) The reform wave brought to over three-quarters of the states true executive budgets as far as preparatory matters are concerned. One of the reasons for the success of the movement was the fact that the adoption of executive budget systems was a feature of the process of integration that was generally favored and applied to state governments. Increasing the administrative functions of the Governor was an element of the reforms which included the coördination of dispersed administrative units and the general introduction of effective financial control systems.¹

Students of finance as well as of government are in agreement regarding the advisability of vesting the Governor with complete responsibility for the preparation of the budget. The prevalent ideas regarding the budget-making agency have been aptly expressed as follows:

The general consensus of authoritative opinion favors preparation of the budget by the executive (the executive budget), as part of the general tendency to centralize administrative responsibility and control in a few elected or appointed officials. The chief executive is especially well equipped to prepare the budget, inasmuch as he is generally charged with responsibility for the operation of administrative units, is

¹ Professor Cline notes this fact in specific relation to expenditure control:

During the last two decades there has been a decided trend in the United States towards the reorganization of state governments and the consolidation and integration of departments. The tendency of such reorganizations has been to increase the power and also the responsibilities of the Governor. In certain states he has been made the keystone, in fact as well as in theory, of the executive branch of the government. He has been given important powers, such as control over expenditures and the right to select and remove the heads of administrative departments. The purpose has been to centralize both power and responsibility in the chief executive in order that he may be held accountable for the efficient and economical operation of the administrative departments. It is an attempt to apply to government a fundamental principle of modern business organization. (Cline, *op. cit.*, p. 1.)

familiar with their functions and activities, and is in the best position to pass upon those problems of administration that bear upon satisfactory effectuation of the budget program.²

Another recent writer has also defined the dominating trends in the current thought on the problem in noting that

American writers, practically without exception, have endorsed the executive type of budget. Most students of government are agreed that it is far better calculated than any of the other types to achieve the desired economy in state administration. The Governor represents the state as a whole and the general direction of financial policy may on that account be appropriately committed to him. The Governor, of all officers, enjoys the most advantageous view of administrative processes.³

Advantages of Executive Budgetary Systems

It is hardly necessary to add that the specific problems of fiscal efficiency and of adjusting state finances to fluctuating economic backgrounds demand the introduction of an executive budget system. Sectional and partisan interests which dominate legislatures are not conducive to a broad viewpoint on fiscal problems. It is essential also that a balanced fiscal program be initiated, guided through legislative channels, and executed by the same agency. The Governor who carries out the fiscal plan should be the one to propose it. Furthermore, there must be someone who views the program as a whole: revenues and outlays; functions and costs. An eminent budgetary authority at the turn of the last century speaking in terms of national jurisdictions, but with universal relevancy, has summarized the need as follows:

Situated at the center of the government, . . . the Executive more than anybody else is in a position to feel the public needs and wishes, to appreciate their comparative merits, and accordingly to calculate, in the budget, a just appropriation which each of these needs and wishes deserves. Others may know certain details as well, possibly better than the Executive, but nobody can have so extensive and so impartial a view of the mass of these details and no one can compromise the conflicting interests with so much competence and precision.⁴

In order to give a commonwealth the full advantages of an executive budget system many structural and financial limitations in state governments should be kept in mind. Some of the aspects will be brought out in connection with the other stages of budget-

² Chamber of Commerce of the United States, *State and Local Budgetary Methods. A Report of the Committee on State and Local Taxation and Expenditures*, (Washington, Feb., 1935), p. 6 (hereafter cited as *State and Local Budgetary Methods*.)

³ Coleman, *op. cit.*, pp. 54-55.

⁴ René Stourm, *The Budget*, American Edition, translated by T. Plazinaki (New York, 1917) pp. 53-54.

ary procedure. For example, the spirit of executive budget planning is nullified unless the heads of the spending agencies are denied direct access to the legislature in demanding increases in the appropriations recommended by the executive.³

It would perhaps be wise to mention that, apart from any infringement on executive budget planning that might arise from the factors discussed under comprehensiveness and unity or from obvious limitations growing out of the character of fiscal systems, almost every state unit denies the Governor power to prepare or revise the estimates for the support of the legislative and judicial branches. As a feature of our traditional system of checks and balances among the three branches of the government it has been deemed desirable to give the legislature and the judiciary a free hand in the submission of estimates. The provision is not as significant as might at first appear. The legislature is not bound by any of the Governor's estimates, except in the handful of states that have given Constitutional recognition to such estimates and have limited the right of the legislature to revise them upwards. The legislature may likewise change judicial expenses, except where some form of constitutional protection is granted to them.

All the states in the predominant executive budget group have some limiting provision of the type under discussion. Excepting Kansas, which does not exempt legislative costs, and Indiana, which dispenses with the usual immunity of the judiciary, all the states grant the two categories an immunity from the Governor's power to revise. In New York the presiding officer of each House, acting for the legislature, and the Comptroller, acting for the judiciary, prepare estimates and submit them to the Governor. He may recommend changes but may not make any. Maryland includes the public schools in the exempt category.

Another qualification need be considered only in terms of the frequent but futile efforts to keep political motivations out of the expenditure revisions. Nebraska, for example, requires that the Governor communicate to the legislature his reasons for any revisions of the estimates submitted to him by the spending agencies. The value of this provision to combat political influences is nil. The provision casts doubts upon the Governor's ability and reduces his work to that of a clerical compilation. It is desirable that the original estimates be known but not publicized. They are tentative forecasts which have not been checked and coordinated. The Nebraska practice is not compatible with the best interests of executive budget planning.

³ Commenting on the absence of such a limitation in Oklahoma, the Brookings experts noted:

The Oklahoma budget law should contain a provision similar to Section 22 of the Iowa Budget and Accounting Act, prohibiting the heads of departments and establishments from either advocating an increase of an item or of submitting any estimate to any committee of the legislature, unless at the request of either House of the legislature, and then only through the Governor and his budget officer, the State Comptroller. Brookings Institution, *Oklahoma Survey, op. cit.*, p. 239.

The depression and the recovery period have brought into the clear the undeniable importance of an executive budget system. Relations with the lesser civil units and with the national governments have strongly influenced state financial problems. A legislative committee or a body of sundry state officials could not cope with the issues raised. Pressure groups had vital issues at stake, important functions had to be sacrificed, and classes and groups had to be taxed at burdensome levels. The choices that some Governors recommended showed poor judgment. However, others avoided responsibility and turned the problem back to the legislature. The practices in some cases tend to cast doubt on the value of executive budget systems.

It may still be assumed that executive budgeting is a boon to fiscal efficiency. Every state should enhance the powers and duties of the Governor in the matters concerning the planning of financial affairs and the preparation of estimates. In doing this they should reconsider the advantages of budgetary comprehensiveness and unity. Many states still dilute the Governor's powers in various directions, even though they nominally claim an executive budget system status. The following quotation from a popular text on state government summarizes the thought of political scientists on the problem:

Students of government are generally agreed that the governor should be vested with complete responsibility for the preparation of the budget. The people look to him for leadership and in the shaping of the state's fiscal policy leadership is especially important. The need for gubernatorial control was not clearly recognized at first, however; seven of the first twelve budget laws placed control in the legislature, or, more commonly in a board. But shortly afterward came a pronounced swing toward budget systems of the executive type.⁶

It is encouraging to note that there has been no reversal of the trend towards the straight executive budgeting alluded to above. In the following study of individual state practices it will not be possible to discuss the question of the ability and efficiency of the Governor or of the other officials of any state concerned with budgetary matters. Such an omission is not based on any desire to emulate neo-classical economists who, turning their attention to public finance, sought only universal principles about the inevitable behavior of rational beings. The difficulties are ones that arise out of the difficulties of measurement, of knowing intimately the facts, and of setting up standards. Not to be neglected are questions of existing fact. No purpose can be achieved in attributing the defects, if the case can be well established, in the system of State X, Y or Z, to a misguided, short-sighted, or biased Executive. Each state must provide a system that gives the right Governor and the right officials a chance to

⁶ Austin F. MacDonald, *American State Government and Administration*, (New York, 1934) p. 335.

act in the best interests of the citizens of the state. The analysis of the system falls under the scope of this study. The steps to be taken and the prayers to be uttered in the search for the right state officers must be sought elsewhere.

Types of State Budget-Preparing Agencies

Buck has summarized the characteristics of executive budget systems and has noted the other types that are prevalent.

Perhaps the outstanding feature of the more recent legislation is the creation of budget-making authorities in the different states. Through this legislation the state lawmakers have established four general types of authorities charged with formulating the initial budget plan. The first of these is called the "executive type," because, according to its requirements, the governor is responsible for preparing the budget to lay before the legislature. This is by far the most popular form. The second is the "administrative board type," under which a group of administrative officers, usually including the governor or some of his appointees, is made responsible for preparing the budget. The purpose of this arrangement may be either to associate the more important of the independent administrative officers with the Governor in the formation of the budget, or to surround the governor with a board so constituted as to restrict his influence on financial planning. The third type is the "administrative-legislative board," composed of administrative officers, including the governor, and members of the legislature. The chief design of this agency is to bring the legislative body into the initiating stage of the budgetary procedure. Finally, there is the "legislative type" which leaves the preparation of the budget to a committee of the legislature. This type exists in only one state—Arkansas.¹

The third and fourth types that Buck classifies are not difficult to distinguish. Between the first and the second there may be misinterpretations due to the fact that the Board may be advisory in character, or they may result merely from a delegation of power on the part of the Governor. In this study no careful attempt at segregation of the first and second groups has been made. There are a few fiscally important states that are not in the executive budget group. The list is complete if one includes the few states with administrative boards under the domination of the Governor and if the members of the legislature are considered as ineligible for their budget making agencies. Because of political expediency, as well as the lack of capacity of Governors or their immediate advisers, the provisions cited have not always been carried out. In some instances the poor observance of the executive budget laws by Governors has come to light. In others no effort to trace the working of the system has been made.

¹ Buck I, *op. cit.*, pp. 28-29.

A brief review of the practices effective in the executive budget group of states follows. A few states, which like New York have constitutional clauses regarding executive budget systems, will be discussed following the analysis of the states with statutory provisions on the subject. The usual practice in the strict executive budget group is to allow each Governor to appoint a budget official to act for him. If there is political continuity, as is the case in the Southern states, or as has been noted in New York for the past decade or more, the budget official and his staff should be able to become proficient in their tasks and should know the best outside sources to which to turn for additional assistance. One should not minimize the importance of the officials and staffs, as well as advisory bodies, which are assisting Governors in carrying out their budget duties.

A more detailed analysis of state practices would undoubtedly reveal many informal advisory committees, some provided for in acts of legislatures, that are called upon to aid Governors and to lend an appearance of well-informed public support to the Governor's program. As has been indicated above, nothing prevents a Governor from getting all the advice he wishes. Only remunerated advisors (barring any personal or party aid from the Governor) require any statutory recognition of their existence. The practice of having Governors or their budget officers calling upon fiscal experts is highly desirable.

The usage may offer one way of providing continuity in the research and planning underlying budget preparation. There is a grave danger that innocuous-sounding councils and advisory boards may conceal lobbying pressure groups. Anti-tax organizations have a way of appearing in different guises, usually as organizations bearing a public welfare connotation. The so-called "institutes" or "foundations" of industries come to mind.

It should be noted at the outset that in keeping with the usual expenditure emphasis, the discussions and practices usually revolve around the preparation of the expenditure program. The statutes tell little regarding revenue estimates and the allocation of the duties involved in their preparation.

Executive Budget Group: Statutory Basis

The largest single group of states consists of those that have statutory provisions for executive budget systems. In the discussion of each jurisdiction in the following group it will be noted that there are differences with respect to the agencies or officials who assist the executives charged with preparing the budget.

Alabama

In Alabama the duty of preparing the budget proposals rests with the Governor who is assisted in these duties by the State Comptroller. The latter officer is appointed by the Governor and may, therefore, be considered his budget officer; in addition

he is vested with other administrative duties as Comptroller. While his knowledge of State financial affairs should prove invaluable to the Comptroller in the formulation of the State's fiscal program and especially of revenue estimates it is doubtful whether the Comptroller or any other official or agency is endowed with the superhuman prophetic qualities that Alabama's quadrennial system demands. An utterly hopeless task confronts the Governor and it is of little aid to come to his assistance by providing him with a staff and with competent advisory bodies, a luxury that the State can hardly afford.

Until 1932, when a financial crisis necessitated a revised budgetary system adopted at an extraordinary legislative session, the preparation of the fiscal program was not successfully carried out. A Budget Commission was previously charged with the budget-preparing duties. The Brookings survey indicates this fact clearly. Small wonder that the State found it frequently necessary to revise programs previously adopted.

After passage of the budget law in 1919, the Governor and the other members of the Commission worked in close coöperation with the legislature in the preparation of the budget bill for the quadrennial period ending September 30, 1923. The Commission functioned as contemplated by the law during this four-year period and presented the legislature with a budget document for all governmental operations for the quadrennial period beginning October 1, 1923 and ending September 30, 1927. It also prepared a budget document for the quadrennial period beginning October 1, 1927 and ending September 30, 1931, but it did not prepare and submit a document to the 1931 legislature. The departments were not called upon to submit estimates of their requirements for the then ensuing quadrennial period as required by Section 907 of the Code. As a matter of fact, this Commission has held no formal meeting since June 7, 1927, and the budget law is ineffective today owing to the failure of the Commission to function. Its failure to function is apparently due to the attitude of past legislatures toward its recommendations, to the fact that over 80 per cent of all departmental and institutional appropriations are permanent recurring appropriations, and because it is an ex officio body without permanent personnel to do its work.

No budget proposals were submitted to the incoming legislature by the outgoing Governor in January, 1931. In the absence of complete data as to the financial condition of the State, the Joint Finance Committee of the legislature, by resolution, requested the Governor to submit such data. This was done under date of April 30, 1931, when the Chief Examiner of Accounts submitted to the committee certain financial statements to report: (1) The revenue and other receipts of the government and the disbursements for general and educational purposes for the period beginning October

1, 1926 and ending September 30, 1930, and (2) estimates of receipts and expenditures for the then current year ending September 30, 1931.^a

Obviously no system would assist in bringing about financial stability if preparatory duties were similarly handled. It is of interest to note that abuses of comprehensiveness are credited with a major share of the difficulties.

Colorado

As indicated above the largest number of states are in the group which, like Alabama, nominally shift preparatory duties to the Governor. In Colorado, on the contrary, a Division of Budgets, which is a part of the Executive Council of the State, carries out the budgetary duties allocated to the Governor. The Budget and Efficiency Commissioner, who heads the Division and who is appointed by and may be removed at the discretion of the Governor, is the chief budget officer of the State. Both Alabama and Colorado appear to make reasonable efforts to assist the Governor in his duties. It should be recalled that biennial budget periods relieve the staffs of some of the work that those in the few annual-budget states must meet.

Georgia

In Georgia a Budget Bureau, attached to the Executive offices, is charged with the preparation of the budget. The Governor is ex officio director of the Bureau while the State Auditor is assistant Director. The latter may be considered to be the Governor's budget officer, inasmuch as he is appointed by the Governor and may be removed by him for good cause. It should be noted that his appointment requires Senate confirmation. Though differing from the federal interpretation of executive independence, it is not an uncommon practice. The executive character of the budget preparation is not hampered unless the free choice of the Governor is interfered with or the expected cooperation does not materialize.

Various States

In Idaho the Bureau of the Budget attached to the Executive Department of the State is the budget preparing agency. The Governor appoints the Budget Director who heads this bureau. The latter is responsible only to the Governor and is his budget-making officer.

In Illinois the Department of Finance, a part of the executive division of the government, carries out all budgetary functions for the Governor. The Director of Finance, who heads the department, is appointed by the Governor and serves at his pleasure. In Iowa the State Comptroller, attached to Executive offices, performs all the budgetary functions in cooperation with the Gov-

^a Brookings Institution, *Alabama Survey, op. cit.*, Vol. 3, Part 2, pp. 165-166.

ernor. The State Comptroller is appointed by the Governor with approval of two-thirds of the Senate and is removable at will. During a recent political campaign in which budgetary qualifications were discussed, no mention was made of the fact that in Kansas the Governor is assisted by a State Budget Director.⁹

There is a tendency for the smaller and less prosperous commonwealths to assign the budget-making duties to an officer of the state fulfilling some other regular function. Kansas law provides for a State Budget Director appointed by the Governor. The Maine budget is prepared by the Budget Officer who works with the Department of Finance; he may also be the Commissioner of Finance. He is appointed by the Governor with the advice and consent of the Council. The Bureau of Accounts and Control, the Bureau of Purchases, and the Bureau of Taxation, each with its head, are also organized under the Department of Finance. This enables a unified financial agency to assist the Governor. Maine is notable for the fact that the basic budgetary law creates a legislative advisory committee. Few states have permanent advisory bodies created by statutory authority. Drawing the membership of the Committee exclusively from the legislature undoubtedly requires a qualification of the assumption that Maine's system provides for an executive budget. It will be noted that the views of the advisory committee are not legally binding on the Governor but political expediency will no doubt require close harmony if the Governor's program is to survive the legislature. The statute creating the Committee follows:

There shall be an advisory committee on budget consisting of three members, one from each house of the legislature selected by the presiding officer thereof prior to November first, of the even-numbered years. In each case the selection shall be, if practicable, the senior ranking member of the senate and house respectively of the committee on appropriations and financial affairs, who is to serve as a member of the next succeeding legislature and a member of the minority party. The members of the committee shall be paid the necessary expenses incurred in the performance of their duties, and in addition thereto they shall each receive five dollars per day for the time actually spent while the legislature is not in session. This committee shall meet with the governor, or the governor elect, when so requested by him, during the preparation of the budget, and shall advise with him on any and all matters pertaining to the financial policy of the state government. The governor, however, shall be fully responsible for all budgetary recommendations made to the legislature.¹⁰

⁹ There is hereby created the office of a state budget director who shall not be a resident of any county in which a state institution is located or shall hereafter be located, who shall be appointed by the Governor, with the advice and consent of the senate, for a term of four years, the term to expire on the first day of July. Said budget director shall hold his office at the will and pleasure of the Governor. *Kana. Laws (1925), c. 260, § 13.*

¹⁰ *Me. Laws (1931), c. 216, art. II, § 9.*

This suggestion of the Institute of Public Administration's experts was not translated into law. The new Committee was to replace a budget committee with power to formulate the budget program. The report said in recommending the new Committee:

If the governor wishes to advise with members of the legislature in the preparation of the budget, he may do so, but this should not absolve him of complete responsibility for the financial plan. The governor may name an advisory committee from the legislature without any formal legislation.¹¹

Formal legislation was, however, passed, no doubt because such matters as salaries are best treated formally.

A few other states also provide in their statutes for executive leadership in budget matters. In Michigan the preparation of the budget is performed by the Budget Director, who is appointed by the Governor for a term of two years. In Minnesota the Commissioner of the Budget is one of three members of the Department of Administration and Finance known as the Commission of the Budget.

New Hampshire

New Hampshire's statute provides that the office of the Comptroller, a division of the Executive Department, carry out the budgetary functions for the Governor. The Comptroller is appointed by the Governor with advice and consent of Council and is removable by the Executive. The Brookings experts, in commending New Hampshire's executive budget system, have made some interesting remarks concerning its implications.

It should be noted at this point that the budget law emphasizes the responsibility of the Governor for the estimates. He is not required to accept or follow the recommendations of persons attending the public hearings. The law is emphatic in this respect. It sets forth that the proposals contained in the budget document shall represent his judgment and recommendations in respect to the revenue and expenditure needs of the government. Nor is the Governor required to submit with his estimates the original requests submitted to him by the spending services, such as is done by a considerable number of states which have established budget systems. With respect to this feature, the budget law of New Hampshire appears to be superior to other state budget laws which require submission by the Governor not only of his own estimates but of those formulated by the spending services, since the latter method tends to raise an issue between the Chief Executive as general manager and his subordinate administrative officers. Moreover, as the estimates submitted by the spending services are in most cases in excess of those recommended by the Chief Executive, the

¹¹ Institute of Public Administration, *Maine Survey*, *op. cit.*, p. 54.

legislative branch is encouraged to ignore the estimates of the Chief Executive, or at least to a certain extent to increase his proposals.¹²

New Jersey

In New Jersey a separate budget-making agency is found.¹³ A state providing for an annual budget and at the same time being an important jurisdiction, could hardly function without a well-staffed official devoting full time to his budgetary duties. In the preparation of the 1936-37 and 1937-38 budgets Governor Hoffman was assisted by an informal State Budget Advisory Committee which submitted reports. This is one of the few such advisory bodies whose existence has been noted. In this State, as in New York in 1932 and 1933, the Committee was not provided for by law and did not include members of the legislature. The contrast with Maine's advisory body is evident.

Before turning to the remaining states in the executive budget category an interesting feature of New Jersey's recent history may be noted. In the law which was in force prior to the recently adopted statutes, there was a provision calling for the appointment of two budget assistants. Comment from the report of the Institute of Public Administration pre-depression survey on this matter follows:

A great point is made of the fact that these two budget assistants to the Governor represent the two major political parties. The result is that the preparation of the budget is regarded in the light of a political rather than a technical job. In no other state in the Union is this the case.¹⁴

One is inclined to believe that one assistant representing a single party may do as much as two towards stressing the political element. The report criticized the two assistants as "official snoopers," and "incompetent." It recommended the establishment of a bureau of the budget as a part of the Department of Finance, a suggestion that has been put into effect.

In North Carolina the statutes give the Governor control and supervision over government agencies for the initiation and preparation of a balanced budget of all revenues and expenditures for each session of the General Assembly. The Governor heads the Budget Bureau, which is part of his executive office.¹⁵ Also in this State a Budget Advisory Committee, composed of two members in addition to the chairman of the legislative committees dealing with appropriations and taxation is provided for. Its function is purely advisory.

¹² Brookings Institution, *New Hampshire Survey*, *op. cit.*, p. 357.

¹³ The State Budget Department carries out all budgetary functions assigned to the Governor. The Department is headed by the State Budget Commissioner who is appointed by, and may be removed at the pleasure of, the Governor.

¹⁴ *Report on a Survey of the Organization and Administration of the State Government of New Jersey*, prepared by the Institute of Public Administration (New York, 1924), p. 52.

¹⁵ N. C. Code, (Michie, 1931), § 7486 m.

In Ohio the Department of Finance, through the Division of the Budget, carries out all budgetary functions assigned to the Governor. The Division is headed by the Superintendent of the Budget, who is appointed by and may be removed at the pleasure of the Governor.

Oklahoma

Oklahoma also provides for a true executive budget in so far as preparation is concerned. Among the fiscal duties of the Governor is the preparation of the budget. The Brookings Survey, in describing Oklahoma's practices, indicates some of the attributes:

The budget law as a whole indicates that its framers intended to centralize authority in the Governor for the presentation of a comprehensive work program to the legislature at the beginning of each regular session. In some respects, the law provides an opportunity for the preparation of a real budget document and the operation of an effective budget system. It requires the Governor to establish uniform budget classifications; it requires the departments and institutions to submit estimates of their requirements in accordance with these classifications; it requires the budget officer to make field surveys and studies of governmental agencies looking toward economy and efficiency; it requires the Governor to hold public hearings; and it requires the Governor to submit the budget document and tentative appropriation bills to both Houses of the legislature at the beginning of each regular session. In addition, it requires the State Auditor to submit estimates of revenue and certain financial statements to the Governor for incorporation in the budget document, and inferentially, it requires him to establish an effective central accounting system to record, control and report currently the financial condition and operation of the state government.¹⁶

It will be noted that all the powers and duties outlined above are related to preparatory functions. In carrying out these duties the Chief Executive is assisted by a budget officer.¹⁷

¹⁶ Brookings Institution, *Oklahoma Survey, op. cit.*, p. 238.

¹⁷ *The Budget Officer*. This office was created by the legislature in 1923. The act creating this office provides for the appointment of a Budget Officer for a term of four years. He is appointed by the Governor, with the advice and consent of the Senate. The Budget Officer, with the approval of the Governor, is authorized to employ one stenographer. The powers and duties of the Budget Officer are given in Chapter 27, Article 1, of the Oklahoma Statutes, 1931. He acts for the Governor in the matter of surveying the state departments and institutions and the holding of public hearings on any and all estimates; and he prepares the budget document and tentative appropriation bills submitted to the legislature. *Ibid.*

In Oregon the preparation of the budget is carried out by the Budget Division of the Executive Department. The Division is under the supervision of a director who is appointed by the Governor for an indefinite term and who may be removed at will.

Pennsylvania

Pennsylvania is another fiscally important State which was led by the inadequacy of its previous methods to adopt a plan providing the State's Executive with a budget official. The background of the Keystone State's executive budget system has been described as follows:

The functions of the budget system established by the Administrative Code of 1923 were assigned to the Secretary of the Commonwealth in addition to the constitutional and statutory duties of his office. For four years this arrangement was adequate but by 1927 the State's annual business in dollars had become \$116,500,000. With this, it appeared that an officer was needed to devote his entire attention to the operations of the budget. Accordingly, in January 1927, Governor Fisher, by Executive Order, created the position of, and appointed a Budget Secretary. The General Assembly of 1927 by amendment to the Administrative Code of 1923 removed the Budget functions from the Secretary of the Commonwealth and assigned them to the Budget Secretary. This was continued by the General Assembly of 1929, in re-enacting the Administrative Code.

The Budget Secretary is an employee in the Governor's Office. He and the employees of the Governor's Office whose work he supervises form the Budget Bureau. The powers of the Budget Secretary other than those given him in the Administrative Code are based upon the Governor's powers. All administrative duties in connection with the Budget are performed by the Budget Secretary.¹⁸

Rhode Island's practices are also of recent origin. Previously the State Commissioner of Finance appointed by the Governor (with the advice and consent of the Senate) assisted in the preparation of the fiscal program. A law enacted in 1935 established a State Budget Director and Comptroller as part of the executive budget system.

Of the nine remaining states providing in their statutes for executive budgets four do not provide the Governor with an official or an agency devoting attention exclusively to budgetary affairs. In South Dakota the Governor is the chief budget officer of the state and works in conjunction with the Secretary of Finance in preparing the budget. Both the Governor and Secretary of Finance have authority to examine the books and records of any department, agency, or institution of the State in order to prepare a correct budget.

¹⁸ Townsend, *op. cit.*, p. 6.

Tennessee

Tennessee is a State in which the actual procedures, more than the statutory provisions, indicate that there is a need for reform. There is also some question as to whether the state deserves ranking in the executive budget group. According to its statutes the Division of Accounts and Budgets, which is a part of the Comptroller's office, carries out the preparation of the budget for the Governor. The Commissioner of Taxation and Finance, heading the department of that name, is to assist in such preparation. The Division is not concerned exclusively with budget making; neither is the Department of Finance and Taxation, although it is referred to as the Budget Commission. Tennessee also has a legislative advisory body. It should be noted that this Advisory Committee consists of the Chairman and three members of the Appropriation Committee of the House and the Chairman and two members of the Finance Committee of the Senate. The Governor is to be assisted by the Comptroller and the Division of Accounts and Budgets. The Budget Commission is required to do the actual work and is to be advised by the Governor. The Commission, after having held hearings, is to prepare a budget which the Governor transmits to the Legislature. In transmitting the program the Governor is required to add his own recommendations; it is with these that the Comptroller's office is primarily concerned. Presumably the Legislative Advisory Committee makes its influence felt with the Budget Commission. Further indication regarding the diluted power of the Governor in the budget preparation stage may be noted from the fact that the Budget Commission has the authority to revise the estimates submitted to the Legislature before final action is taken.

In a recent study of the State's fiscal system strong recommendations for revising the budget preparation procedures were made. It should be recalled that the provisions outlined above were a feature of a 1933 reorganization reform. Professor Snively, whose study for the Tennessee Planning Commission is now quoted, proposes

... that a Division of the Budget be created in the office of the Governor. The Division . . . should be in charge of a Budget Director who should be a highly capable person well trained in accounting and finance. He should be a non-political official and should hold office at the pleasure of each Governor for an indefinite period. He should not be removed except for incompetency or malfeasance in office. Each Governor should have the benefit of his experience in office and his knowledge of the various departments in the state and his technical training in the finances of the State.¹⁹

The suggestion that the Director of the budget agency be permanently retained in office is not usually a feature of execu-

¹⁹ Tipton R. Snively, *A Study of the Fiscal System of Tennessee*. Prepared for Tennessee State Planning Commission, Bulletin No. 1. (Nashville, 1936), p. 17.

tive budget proposals. Nevertheless, the recommendations are praiseworthy and serve to indicate the difference between Tennessee's present arrangements and those that conform to executive budget standards.

Other States

The Texas budget is prepared by a State Board of Control consisting of three of the Governor's appointees. In Utah the executive secretary of the Board of Supplies and Purchase serves as Director of the Budget and carries out the budgetary functions assigned to the Governor. The Director is appointed by the Governor with the advice and consent of other members of the Board. In Vermont the Department of Finance is the Governor's agency in preparing the budget. This State is one that requires the Governor to advise the legislature of his reasons for proposed changes. The other four states have provisions supplying the Governor with budget officials and staffs.

In Virginia a Division of the Budget, attached to the Governor's office, carries out all budgetary functions assigned to the Governor. The Division is headed by a Director who is appointed for two years by the Governor and serves at the latter's pleasure. Washington has a Division of the Budget, part of the State Department of Finance, Budget, and Business, which carries out the preparation of the fiscal program. The Department is headed by a Director appointed by the Governor with consent of the Senate. The Supervisor of the Budget, heading the Budget Division, is appointed by the Director.

In Wisconsin the Bureau of the Budget, attached to the Governor's office, carries out the preparation of the budget. The Bureau is headed by a Director, appointed by the Governor for an indeterminate term, with the advice and consent of the Senate. He is removable at the pleasure of the Governor, except during legislative session and for two months prior thereto when he may be removed only for cause. Finally, in Wyoming the Governor is chief Budget Director and appoints an assistant budget officer for a two-year term.²⁰

Executive Budget Group: Constitutional Basis

Every state that has embodied its budget laws in its constitution, with the exception of West Virginia, provides for executive budget preparation. This is comprehensible since a constitutional amendment was desired in part to prevent legislative tampering with powers granted to the Governor. California, Maryland, Massachusetts, Missouri, Nebraska, and New York complete the group. In California the Governor is aided by a Director of Finance. The latter heads a Division of Budgets and Accounts

²⁰ Data on the character and the distribution of budget preparing duties in Arizona, Nevada, and New Mexico are not available. It is believed, however, that these States provide for executive budget systems.

in the executive offices. In Maryland the preparation of the budget is under the direction of the Governor whose budgetary duties are administered by a Budget Director appointed by him. The Massachusetts budget is prepared by the Budget Commissioner attached to the Commission on Administration and Finance, appointed by and serving under the Governor and Council. In Missouri the Chairman of the State Tax Commission, who is ex-officio Director of the Budget, carries out the task of budget preparation under the supervision of the Governor. The Chairman is appointed by the Governor and is removable at the latter's pleasure. The practice of placing the burden of preparing estimates in the hands of those actively concerned with the functioning of State financial affairs, namely the State Tax Commission, may be valuable in that it tends to overcome the usual expenditure emphasis characterizing the work of other officials charged with the preparation of the budget. Nebraska has allocated budget preparation functions to the State Tax Commissioner who is an appointee of the Governor.

New York

Before the remaining executive and legislative preparing agency types are surveyed, New York's practices may be noted. The Empire State contains in its Constitution a provision creating a budget agency similar to that of most states in the executive group. A Division of the Budget, attached to the executive offices, assists the Governor in carrying out the budgetary functions assigned to him. The Division is headed by an official known as the State Director of the Budget. He is appointed by, and may be removed at the pleasure of, the State's Chief Executive.

In New York the abandonment of the property tax as a source of State revenues creates an important estimating problem, in view of the State's huge tax burden. Several agencies of the State cooperate with the Governor in the compilation of the forecasts as well as in the tax proposals that have been a feature of recent budget messages. The State Tax Commission, which heads the Department of Taxation and Finance, is the agency chiefly responsible for revenue estimates. The State Comptroller and his staff also forecast yields. In recent years the Governors have been calling on outside academic and fiscal experts, and leading fiscal scientists have acted as the Governor's unofficial advisors.²¹ The Division of the Budget does not appear to be active in the matter of revenue estimates and proposals. There can be no criticism of the State for having failed to make a consideration of the revenue aspects of its fiscal system a feature of its executive budget planning.

During the two years following the adoption of the budget amendment a Budget Advisory Committee was created. The Committee created by Governor Roosevelt in 1932 was continued by Governor Lehman in 1933. The agency, which had a research

²¹ N. Y. Times, January 13, 1933.

staff, issued several reports. These were prepared for the Governor a few weeks prior to the transmittal of his budget message and covered the entire scope of the State's problems. The Committee in 1932 included leading businessmen of the State and had the cooperation of the Director of the Budget and all State officials. Its functions were naturally only advisory. There has been no such Committee in the State since 1933.

It is questionable whether such an advisory body does much more than inform the Governor of the viewpoints of the group that the body's membership represents. It is interesting to note that the Advisory Committee left no lengthy intervals between the submission of its reports and the time at which the Governor was to submit his message. In 1932 the report was submitted on December 20, and in 1933 on December 30.²²

Summary: Executive Budget Group

In the states the leading budget official assigned to the Governor is known variously as the Budget Commissioner, Director of Finance, Budget Secretary, Superintendent of the Budget, or simply as the Budget Officer. The title is of no significance. It is important that the states provide their Governors with an official and a staff serving him alone in connection with the preparation and possibly the execution of the budget. In the group of states already mentioned only Alabama, Iowa, Missouri, Nebraska, New Hampshire, South Dakota, Tennessee, Texas, and Utah fail to provide an official or an agency to act as the Governor's appointive budget aid. Some of these States could afford an official and a small staff. It is interesting to note that Missouri and Nebraska rely upon the State's highest ranking tax official to assist the Governor. This practice should certainly lessen any disregard of revenue aspects in which some of the other officials charged with budget and other duties may indulge. Alabama and New Hampshire are among the states that call on the Comptroller for budgetary functions. This is certainly more desirable than the practice noted in Utah in which the head of an agency concerned primarily with purchasing supplies is the budget official. This is an arrangement inviting an expenditure emphasis.

Board Budget Group

In addition to the already discussed executive budget group there is another which consists of states that have vested budget preparation duties in state agencies whose members are not engaged exclusively in budgetary matters. The so-called board type is included here. The Governor, while frequently a member of the body, does not have official power to dictate the fiscal policy to be embodied in the budget proposals. The jurisdictions in this group cannot, without question, be credited with having legalized executive budget planning of the usual pattern. Actually

²² N. Y. Times, December 21, 1932 and December 31, 1933.

the Governor or his appointive officials may have complete powers. The following quotation from a standard text on state government reveals an interesting explanation of why some states have failed to legalize completely executive budget systems.

The usual reason for placing a board in charge of the budget is that the nineteenth century fear of gubernatorial authority has not yet disappeared. The old theory of checks and balances makes its appearance in a new form. If the governor has complete control over the budget he may use his power to suggest expenditures that are inimical to the common welfare, and a weak-willed legislature may enact his proposals into law. The only safe plan, therefore, according to those timid souls who accept this line of thought, is to associate other officers with the governor at the time the state's fiscal plan is formed, so that unwise suggestions will be detected and cast aside. Of course board administration of the budget system has not produced the results that its adherents claimed for it. Its chief accomplishment has been to force the adoption of an ambiguous and oftentimes confusing fiscal policy instead of a carefully integrated plan. Quite naturally, therefore, the board budget plan is losing in popularity. Not a single state has adopted it since 1921, while ten states have abandoned the board plan since 1921 in favor of the executive budget system.²³

In the following discussion it will be noted that there are a few important states in the board type group.

Connecticut

In Connecticut a Board of Finance and Control is responsible for the various duties in connection with the preparation of the budget. The Board consists of eleven members, including the Governor, Lieutenant-Governor, Secretary, Treasurer, Comptroller, Attorney General, Tax Commissioner, Commissioner of Finance and Control, and three electors appointed by the Governor. It should be noted that this agency with its membership of high ranking officials carries out the policy-making and that the actual work is prepared by the Department of Finance and Control, a regular agency concerned with fiscal matters. It is questionable whether the power of the Governor is not diluted considerably.

In Delaware, according to the 1931 law, a Board of Budget Directors composed of the Secretary of State and two other members appointed by the Governor and serving at his pleasure, is empowered to fulfill the various budgetary duties.²⁴

Florida

In Florida there is a State Budget Commission composed of the Governor, Secretary of State, State Treasurer, Attorney-General, Commissioner of Agriculture and State Superintendent of

²³ MacDonal, *op. cit.*, p. 355.

²⁴ Del. Laws (1931), c. 81, §1.

Public Instruction. The chief officer of this Commission is charged with carrying out the preparation of the budget. It should be noted that on the Florida Commission not only are the administrative heads of the executive agencies but an officer of what is probably one of the largest spending agencies is found. Further evidence of the independence or extra-budgetary character of the Highway Department is seen in the fact that this important agency is not represented on the Commission. What is of still greater significance in connection with the listing of this State outside the executive budget group is the fact that the Commission must transmit all departmental estimates as it receives them and can only add its recommendations. This means that legally the work of the Commission is that of merely compiling estimates. No element of executive budgeting is actually represented.

Kentucky

It is surprising that Kentucky's new system does not provide for an independent budget agency. At present the Department of Finance and Budgetary Control, known also as Board of Finance (which includes Governor, Chairman of State Tax Commission, Auditor of Public Accounts, State Inspector and Examiner, and Secretary of the Executive Cabinet), carries out all budgetary functions. The Commissioner of Finance is constituted as the State Budget Officer.

Other States

Louisiana offers a splendid example of how a powerful and dominating executive can control the preparation of the State budget, (and almost everything else as well) in spite of the fact that the budgetary duties are vested in the hands of the State Board of Apportionment. The Governor is one of four members; the others are the State Auditor, Treasurer, and Supervisor of Public Accounts.

It is not possible to include Mississippi in the executive group. The Brookings experts recommended in 1932 that a Division of the Budget, under the Governor, be created.²⁵ The law, however, provided for a Budget Commission. The Governor is Director, the Chairman of the State Tax Commission is Assistant Director. The Attorney-General is also a member. Until 1936 the Commis-

²⁵ *Division of the Budget*. This division should be headed by the Comptroller. Briefly, the functions of this division will be: (1) to prepare the budget documents and draft the legislation to make it effective; (2) to make field surveys and studies of governmental agencies looking toward economy and more efficiency; (3) to make allotments to control expenditures; (4) to authorize transfers of appropriations authorized by law; (5) to study the accounting and other reports rendered by the central accounting office and governmental services; and (6) to aid the Governor in the economical management of state affairs. Brookings Institution, *Mississippi Survey*, op. cit., p. 353.

sion was an informal body and the members worked as individuals. Recent legislation has made the Commission a real budget-making agency.²⁶

Montana and West Virginia, the latter the only State with a constitutional basis for its extra-executive group status, conclude the list. In Montana the State Board of Examiners assumes the budget-making duties. In West Virginia the ultimate authority in the preparation of the budget program is the Board of Public Works. The Board consists of the Governor as chairman and the State Auditor, State Treasurer, State Superintendent of Free Schools, Commissioner of Agriculture, Secretary of State, and Attorney-General as members. The Governor appoints a Budget Director to assist the Board in preparing the budget. Undoubtedly, through his chairmanship and his Budget Director, the Governor wields great power in formulating the budget.

Legislative Membership on Board Group

There are apparently only three commonwealths in the group that are excluded from the executive budget preparation category by virtue of the fact that members of the legislature are present in the agencies vested with budget making functions. While the legislators may provide expert advice their participation in the planning of the budget contradicts the spirit of executive budget authority. Legislative membership on the budget agencies should be differentiated from membership on a legislative advisory body in an executive budget state.

Indiana

In Indiana a State Budget Committee directs the preparation of the fiscal program. The statutory provisions, which were reapproved in 1933,²⁷ provide that the ex-officio Chairman is the State Examiner of the State Board of Accounts. The other members of the Committee, two from the House and two from the Senate, are appointed by the Governor. This fact undoubtedly preserves an appearance of *de facto* executive budget preparation. Theorists are singularly in agreement regarding the desirability of excluding legislators from preparing the program which the legislature is to review. There may be a less objectionable practice in Indiana than in the two states next surveyed in which ranking fiscal committee membership means a position on the budget agency.

²⁶ In 1936 a statute (Chap. 215, Laws of 1936, amended Chap. 120) authorized the employment of a Secretary of the Budget Commission and such additional secretarial, clerical and other assistants as should be found necessary to the proper discharge of the duties imposed upon the Commission. Chap. 13 of the Laws of 1936 appropriated \$14,400 for the operation of the Budget Commission for the fiscal period beginning July 1, 1936 and ending June 30, 1938. Letter from Leight Watkins, Director of Research, State Tax Commission, under date of October 22, 1936.

²⁷ Ind. Acts (1933), c. 28.

North Dakota

In North Dakota the Governor does not have the privilege of choosing the members of the legislature who are to sit on the State Budget Board. The Governor is chairman of this Board; its membership is fixed to include the Chairmen of the Senate and House Appropriation Committees of the preceding Legislature, the State Auditor, and the Attorney-General.

South Carolina

The Governor of South Carolina does not possess the many powers usually granted to the chief executives of states.²⁸ Among the functions lacking is the complete control of preparation of the budget program. He does, however, exercise some privileges as chief budget officer of the State because of his membership on the Budget Commission. The Chairman of the Ways and Means Committee of the House and the Chairman of the Senate's Finance Committee are also members. Prior to 1933 these three officials carried out the budget preparation duties without being united in a formal commission. The legislators are expressly authorized to "sit with the Governor at all public hearings on any and all estimates to be included in the budget and join with him in all reports and recommendations thereon to the General Assembly."²⁹ There is a State Budget Commission that does much of the actual work. In addition, since 1933 the office of State Auditor has been placed under the direction of the Commission.

Coleman, who has made a careful study of administrative and budgetary practices in his State, notes:

Under the budget system in South Carolina the Governor is the chief budgeting officer in name only, for the legislative committees actually handle the details of constructing the so-called budget. Now, it is patent that the committees are unable, in the short period of consideration, to determine the needs of departments and to coordinate these needs with available resources. The law-making body is without the necessary technical staff to maintain a continuing contact with the actual detailed operations necessary to the determination of needs on a basis of fact. Nor should it have such a staff. This is the proper function of those in charge of carrying out the plans decided upon, who acquire the experience from year to year upon which costs are based.³⁰

In keeping with its unique status as a defaulting state, Arkansas offers the only example of a so-called legislative budget. The State Auditor receives estimates of expenses filed by the State

²⁸ It is axiomatic that the Governor of South Carolina has very little power. He should have power to appoint and to remove heads of departments, to prepare and present the budget to the General Assembly, to supervise its execution, and generally to direct the administration as a whole. Coleman, *op. cit.*, p. 14.

²⁹ *Ibid.*, p. 49.

³⁰ *Ibid.*, pp. 53-54.

agencies with him before the opening of the legislative session. He combines these with revenue estimates prepared by him, and hands these to the legislative committee, which consists of seven members of the House appointed by its Speaker and five members of the Senate appointed by its President. While the State Auditor may be considered to be acting in an executive capacity, it is evident that he functions as a fact-finding assistant for the legislative committee. The Institute of Public Administration experts made a proposal for the establishment of a Department of Finance with an attached Budget Bureau.

Summary: Budget Board Group

There appears to be no reason why the twelve states outside the executive budget group should not take steps to benefit from centralized budget planning. Perhaps the difference may be only a nominal one in some cases but the fact remains that the Governors in none of these states have their own full-time appointees as budget officials. The various Boards and Commissions now in existence could be retained as advisory bodies. From the point of view of fiscal efficiency there is no reason why the Governor's power to take full responsibility for the proposed program should be questioned. A desire on the part of New York and Maryland, in which there are restrictions on legislative powers of revision of the Governor's estimates, to impose some control on the Governor, might be comprehensible. In any of the other states it can fulfill no useful purpose.

The three states with legislative participation in the budget preparing agency and Arkansas, with its absolute exclusion of its Executive from participation in budget planning, are sadly in need of reform.

There is no doubt that in the matter of executive leadership in budget preparation the states present a more solid front than in almost any other accepted budgetary practice. Improved budgetary standards would result if executives would take greater advantage of the powers that have been conferred on them as a result of the long reform movement.

CHAPTER XXV X

ESTIMATING PROBLEMS

Forecasting Revenue Yields

The discussion of the agencies empowered to carry out various functions and duties in connection with preparing the budget has indicated some of the methods and procedures adopted in the various jurisdictions.

Before a detailed analysis of these procedural matters is undertaken it may be well to stress the importance of estimating problems as an element of budget program preparation. The discussion will serve to answer the hypothetical question "What are the methods and devices employed in preparing revenue estimates?" It will also briefly mention the expenditure estimating problem.

Tax yield forecasting in national governments will serve to introduce the nature of the problems involved. It is advisable to use the national jurisdictions as a point of departure since no state governments offer examples of the so-called mandatory estimating practices. These automatic methods consist of basing predictions on past accomplishments.

Automatic Estimating Methods

The European literature on budgetary problems is replete with discussions of the various automatic and semi-automatic methods for the forecasting of revenue yields. Budgetary systems even in recent years show instances of statutory requirements for the use of automatic estimating procedures. Among the countries included in this survey only two or three now pay even lip-service to these antiquated administrative devices. Neither their popularity nor potentialities are such as to recommend them for use in any of the various types of jurisdictions which today must cope with the revenue estimating problem. A brief discussion of the recent history of these interesting examples of budgetary influences on fiscal policy will reveal that fiscal efficiency was seldom either sought or achieved.

The two countries previously mentioned as being among those which today employ some variation of the older automatic estimating methods are France and Belgium.

In France the popularity of automatic estimating rules is past. However, prior to 1914 several methods were in use in the major portion of the revenue system. The war and subsequent economic developments hastened their eventual discard. France was not without previous experience with respect to the abandonment of its automatic estimating methods after a series of chronic surpluses or deficits. In the post-war period, when there was a necessity for restoring public confidence in the fiscal policies and practices

of the government in connection with the saving of the franc, the methods were reintroduced. The most popular device was that of linking revenue estimates to the actual yields of the penultimate year. It had as its chief virtue the tendency to under-estimate the actual yields in face of improving business conditions. Another procedure called *majoration* allowed for fixed-percentage increases in estimates based on the penultimate method. These two procedures were most commonly used in France. They served well in 1926 and 1927 in helping to eliminate the deficit financing that had succeeded in undermining the franc. In 1930 automatic estimating was abandoned with respect to many of the revenues. It is said by Allix that at that time it referred to only two-fifths of the revenue collected.¹ In the 1934 budget the application of automatic methods in estimating the yields of the customs and indirect taxes, their last stronghold, was abandoned. Since that time there has been no legal compulsion for the application of any automatic revenue forecasting. The writer has been informed that the penultimate year method is still applied in the case of the tax on agricultural profits but that traditional usage rather than legal conformity is responsible for this practice.²

The influence of French policy on Belgian practice is easily discernable. In Belgium the so-called direct appreciation methods, which limit the increases over the previous year's estimates, are legally sanctioned. Because of problems created by modern business cycles one becomes disinterested in seeking further data on these methods. They are unsuited to modern conditions if literally adhered to. In addition to the violent fluctuations of the general business cycle such continental developments as general strikes, monetary devaluations, and armament programs have had their effect on the Belgian people. To limit the increase of their revenue estimates according to the accomplishments of the period immediately closed, and to fail to consider all the possibilities of the subsequent period, imposes on a nation an unwarranted restriction on the ability to plan its fiscal program on a sound basis. The adoption of automatic estimating might tend to prevent an overencouragement of spending programs since it restricts the freedom to make overoptimistic revenue forecasts. However, in periods of recession when the accuracy of estimates is of the greatest importance, the device is useless. It is interesting to note that the information supplied on the Belgian budgetary system emphasizes the strict application of the legal provisions regarding estimating.³ It was indicated that the officials charged with preparing the estimates are responsible for any errors or miscalculations. This undoubtedly refers to their application of the specific statutory requirements rather than to the accuracy of the method-

¹ Allix, *op. cit.*, p. 49.

² From a letter to the writer from Prof. L. Trotobas, University of Aix-Marseilles, under date of Jan. 29, 1936.

³ *National Budget System of Belgium*, unpublished survey prepared for the writer by M. Yves Devadder and Professor Alfred Nerinx, University of Louvain, July, 1935, p. 2.

ology itself in terms of actual accomplishments. It was further indicated that these disciplinary penalties are provided in cases of negligence or inefficiency on the part of budgetary officials.⁴

It appears that Belgium alone among the nations of the world still operates with any mandatory use of the automatic methods. While there is no indication that an immediate abandonment of the Belgium estimating techniques has been anticipated, there can be no doubt that the emergency steps taken to cope with the recent economic and political crisis will result in an abandonment of these techniques designed for a more serene economic background and a different relationship between the government and Parliament.

In the last years of the Republic the Germans refrained from specifying methods of arriving at revenue estimates. They are obviously not used by the National Socialist regime. Neumark has indicated that in pre-war Germany the budget laws were replete with regulations to be used in arriving at the revenue estimates.⁵

But war and the inflation naturally destroyed every vestige of such usages. At the time of the writing of his splendid study (1927) Neumark indicated there was some evidence that political and fiscal factors were pointing in the direction of their re-introduction. There was obvious and perhaps necessary manipulation of figures in order to assure the achievement of surpluses and reserves. It will be recalled that the post-inflationary experience in France was the introduction of automatic methods designed to assure the same surpluses of expenditures over revenue. The recrudescence of fiscal difficulties and the collapse of the Republican regime removed to a remote sphere the question of future re-introduction. It is interesting to note that although the Germans made use of automatic methods their major post-war contributions were towards enforced publicity with respect to the methods and assumptions implied in the discretionary preparation of estimates.

The economic uses to which automatic estimates can be put are practically non-existent. When it is essential to assure a surplus in a period of rising tax bases they may be useful; the condition is however seldom present. The real motivations are political and any public clamor for such devices as were found on the continent indicate a distrust of government officials. In this endeavor there does not appear to be a clear case for the usefulness of automatic estimates. Conscious manipulation is possible. Neumark reports that in France officials wilfully postponed closing the accounts for the year for which the results were to be used for estimating current yields.⁶ The accounts became willing tools and could be temporarily revised so that the so-called tamper-proof adjustments would show the desired results. In any event

⁴ *Arrêté Royal*, 22 July, 1931, Art. 1.

⁵ Neumark, *op. cit.*, p. 272.

⁶ *Ibid.*, p. 282.

deliberate under-estimating is also of political or economic advantage, and can be readily achieved without a rigid legalized fraud. One may conclude, therefore, that on the basis of both logical analysis and experience, no solution of the difficult estimating problem in terms of automatic methods is available.

Discretionary Estimating Methods

The discussion turns to the methods of attacking the estimating problems that are found in countries not attracted to the automatic methods. In connection with the national revenue estimating problems discussion has already centered on the agency empowered to carry out the duties. There is in almost every nation a Ministry of Finance or its equivalent. The officials of this Ministry, together with the agency best acquainted with the statistics of the most recent fiscal accomplishments, are empowered to prepare revenue estimates. There is in some cases, as in Great Britain and the British-type budgets, a traditional conformity—a serious and sincere realization of the importance of avoiding errors in revenue estimates. The actual estimating is subjected to extreme care, in planning, since the results are placed in the glaring limelight of national and world-wide publicity. At the other extreme we have methods of which those of the United States are characteristic. Here public confidence in the estimating ability of government officials is not very high.

Could improved budgetary practices remedy recognized inferiorities of estimating standards, or are there difficulties that are inherent and irremovable? For purposes of discussion the British and the United States federal estimates may be analyzed. Generalizing, it may be assumed that the British estimates have proven to be more accurate, especially at times when the accuracy was of great importance. It is questionable whether any jurisdiction in the United States, national or state, can measure up to the standards set by the forecasts and collection results of the four main direct taxes in the British revenue system. Table XII shows estimates and actual collections of recent years.

In questioning the inability of other jurisdictions to achieve such results one is reminded that there are factors that no budgetary system could counteract in order to improve results. The nature of economic conditions is one such element. It is possible that the extent of the fluctuations in business conditions in Great Britain have not been as great or as inherently unpredictable as they have been in the United States. Certainly such factors are significant but the need for improved budgetary practices through improved time relationships is immediately recognized. If our economic affairs tend to greater instability we, more than the British, should reduce to an absolute minimum the length of the period for which the estimates must be projected, and reduce equally any obstacles in placing essential data on current accomplishments in the hands of estimating officials. The results may not be as good as those in a country that enjoys greater stability but all remedial measures may be attempted.

TABLE XII

DIRECT TAX REVENUE ESTIMATES AND YIELDS IN GREAT BRITAIN
Fiscal Year 1928-1929 to 1935-36, Inclusive

(In thousands of pounds)

| | 1928-29 | | 1929-30 | | 1930-31 | | 1931-32 estimated actual (Sept. budget) | |
|-----------------------------------|-----------|---------|-----------|---------|-----------|---------|---|---------|
| | Estimated | Actual | Estimated | Actual | Estimated | Actual | | |
| Income tax..... | 232,900 | 237,620 | 239,500 | 237,426 | 260,000 | 256,057 | 272,000 | 287,367 |
| Surtax..... | 60,000 | 56,150 | 58,000 | 56,390 | 64,500 | 67,830 | 73,000 | 75,700 |
| Legacy and succession duties..... | 72,000 | 80,570 | 81,000 | 79,770 | 83,000 | 82,610 | 83,000 | 65,000 |
| Stamp duties..... | 28,000 | 30,060 | 31,000 | 25,670 | 27,000 | 20,650 | 20,000 | 17,070 |

| | 1932-33 | | 1933-34 | | 1934-35 | | 1935-36 | |
|-----------------------------------|-----------|---------|-----------|---------|-----------|---------|-----------|---------|
| | Estimated | Actual | Estimated | Actual | Estimated | Actual | Estimated | Actual |
| Income tax..... | 260,000 | 251,539 | 228,750 | 228,932 | 219,500 | 228,877 | 232,500 | 238,074 |
| Surtax..... | 66,000 | 60,630 | 51,000 | 52,590 | 50,000 | 51,165 | 51,500 | 51,020 |
| Legacy and succession duties..... | 76,000 | 77,140 | 74,750 | 85,270 | 76,000 | 81,356 | 80,000 | 87,920 |
| Stamp duties..... | 28,000 | 19,220 | 20,400 | 22,710 | 25,000 | 24,110 | 25,000 | 25,800 |

Source: Michel Fourré-Cormery. *L'Equilibre Budgétaire en Grande Bretagne, 1930-1936*, (Paris, 1936). Appendix, Table VI.

Of perhaps greatest significance are the taxes themselves. Reference has elsewhere been made to varying cycle-sensitivity and to varying reactions to particular types of economic circumstances. The distribution of stable and unstable taxes in the system must naturally alter the results. The United States Chamber of Commerce Committee's "Arguments in the Negative" have the following to report in reference to the superiority of British estimates.

The unstable nature of the yield of the present federal tax structure becomes more apparent when it is recalled that in normal times around half of the total ordinary revenue of that government comes from individual and corporate income taxes, the instability of which has just been discussed. In contrast, the greater portion of Great Britain's revenue, as has already been shown, comes from taxes, income and others, which are so constructed and levied as to be remarkably stable in yield. It would appear, therefore, that the road for us to greater accuracy in estimating revenue lies in the development of a system of taxation designed predominantly for revenue purposes and stability in yield. Neither the principles nor mechanics of the budget have anything to do with such matters.⁷

Elsewhere the same point is stressed in opposition to any criticism of federal estimates.

The situation would be different if the federal government's tax structure were more directly devoted to revenue purposes and stability in receipts, so that taxes followed more directly the volume of business, instead of increasing so much more rapidly than business in good times, and falling off so much more rapidly than business in times of depression. Such a tax system not only would make it less difficult to make accurate estimates, but would also lessen the pressure upon the estimating authorities to over-estimate revenues in times of depression.⁸

Certainly an analysis of the individual structure, provisions, and regulations of a particular tax reveals reasons why some jurisdictions may have an easier estimating problem to solve. The rate structure, the exemption and deduction provisions, the averaging of the taxable income, and a host of other factors affect the problem in connection with personal income taxes. It is possible to say that these factors, in the case of the United States federal and British income taxes point to the superiority of the British levy as a predictable source. A detailed analysis might reveal that the tax system of Great Britain in its entirety is a better subject for revenue estimating. As indicated elsewhere cycle-sensitivity should hardly be a criterion in the choice of a national tax; it is probably equally true that no endeavors will be made to stress predictability as a tax norm. The factor again stresses our greater need for efficient estimating devices.

⁷ Report of the Special Committee on Federal Expenditures, *op. cit.*, p. 11.

⁸ *Ibid.*, p. 7.

Continuing the search for possible factors other than budgetary influences is it possible that estimates of a tax system as a whole are but a series of individual guesses and that a fortuitous series of results cancels out individual errors and gives the ultimate test an appearance of accuracy? Such compensatory influences may frequently cause such effects.* It is, however, highly improbable that estimates are all guesses and that luck and coincidence are decisive factors.

There remains yet another factor which may affect any conclusions regarding the influence of budgetary practices. If some opinions are warranted it may even have a bearing on the desirability of attempting to improve published estimates. The element to be discussed is the possible manipulation or concealment of estimates for political or even economic purposes. At a later point it will be shown that the states are known to provide for short-term financing through an "adjustment" of revenue estimates used to judge anticipated yields. In national governments there are undoubtedly times when the estimates that are submitted are not those which the submitting agency considers as basically valid. The British estimates are almost above suspicion in this respect since Chancellors have always stressed fiscal policy rather than makeshift estimate-juggling as the keystone of their budget programs.

It has been hinted that American federal estimates have a psychological import and that it may be more prejudicial to national well being to report true estimates than to use estimates to mold public opinion and confidence. The Chamber of Commerce gives a specific instance in our recent depression history when exact forecasting might have been undesirable.

In the United States in the fiscal year of 1931, for example, federal internal revenue receipts fell \$610,000,000 below those for 1930. As a practical matter, it cannot be expected that the executive department of the government in March of 1930, when it was making every effort to revive public confidence, would state authoritatively that in the opinion of its best financing minds corporate income taxes for 1931 would fall more than \$200,000,000 below those for 1930; that individual income taxes would be less by \$300,000,000, or almost 30%, taxes on capital-stock transfers \$21,000,000 less, and customs duties \$200,000,000 less.

The executive department would be well aware that such a statement at such a time, if generally believed, would have immediate and profound effects, further reducing revenues. It would furnish a powerful ally to the forces of fear and depression, and go far toward nullifying all of the govern-

* Mallet and George (*op. cit.*, p. 4) report that Sir Robert Horne's revenue estimate of a £234 million surplus for 1921-22 showed surprising accuracy in face of a real surplus of £230 million. They indicate however that there were wide discrepancies in constituent items and that the balance was a highly fortunate one.

ment's prior efforts to restore confidence. In view of these practical considerations, it is scarcely to be expected that any official who is responsible to the party in power would become a prophet of national disaster in order to secure or maintain a reputation for accurate estimates.¹⁰

Willoughby suggests that intentional manipulation culminating in the submission of unduly pessimistic estimates may have occurred in the "twenties" in order to keep down appropriations and prevent excessive tax reductions.¹¹

The problem of public policy involved cannot be settled now. It is obvious, however, that whatever use a government makes of the powers and confidence bestowed on it for its own purposes, there is no reason why it should not always have at its disposal the best estimates. The Chamber of Commerce report confuses the policy that a government pursues, as mirrored in its published estimates, and the information that it obtains to aid in arriving at such a policy. In any event it is questionable whether any government can over a long period defend a poor estimating record by stressing the known false character of published forecasts.

Budgetary Practices and Improved Estimates

The foregoing discussion must serve to show that budgetary practices are but a single factor in the accuracy of published estimates. But these practices involve solely the factors that can be readily changed and which alone are amenable to simple and easy corrections. The relevant budgetary practices and influences, excluding the nature of the formulating agency, may be classified as follows:

- (a) Public pressure for sound estimating.
- (b) Time relationships.
- (c) Economic and financial data available to estimators; also their techniques.

(a) The first mentioned element is rather intangible and vague but cannot be denied when the ritual and public attention centered around British revenue estimates and those in the United States are compared. The American public does not measure the efficiency of Secretaries of the Treasury by their estimating ability, it does not breathlessly suspend all activity and listen to the forecasts for the year to come and report on past estimating results. It does not make the measurement of ultimate success in estimating a much discussed issue. A study of the Parliamentary debates and public discussion on budget speeches indicates that this is done in England.¹² The British methods of estimating revenue place a large measure of responsibility on the Chancellor. His estimates are endowed with almost a legal status and there

¹⁰ *Report of the Special Committee on Federal Expenditures, op. cit., p. 7.*

¹¹ Willoughby, *op. cit.*, p. 93.

¹² Mallet and George, *op. cit.*, *passim*.

is an unquestionable link between them and taxation policy. As a feature of our emphasis on expenditures in budget matters we have failed to build up a background for focussing attention on revenue estimates. Undoubtedly a tradition can be built up and the federal government can set a splendid example for, and even directly aid, the political subdivisions in their estimating tasks. There has been a lip-service to budget balancing and much discussion of economy. Until the recovery movement aided the realization of optimistic forecasts, the ready recourse to credit sources and haphazard tax measures obviated the need for the federal government to attempt to improve its estimating reputation.

In connection with the public interest in revenue estimates, the question of mandatory publication of the underlying assumptions by the estimating officials has been suggested as a means of enforcing honest as well as better estimates. The German budget officials, under the Weimar Constitution, were required to supply some of the bases used in their estimating. Only information of a general character was supplied and it seldom exceeded in detail such information as British Chancellors of the Exchequer divulge voluntarily in their Budget Speeches. It appears certain that government officials will make great efforts to prepare fine estimates when they must discuss and defend them in the next Budget Speech. A glance at recent Budget Speeches, as summarized by Mallet and George, reveals that the discussion of revenue estimating features exceeds anything found in any federal budget message submitted since 1922. It is unheard of for a British Chancellor to testify, as did a post-war Secretary of the Treasury in referring to a subordinate official charged with revenue estimating, that "Mr.— has his own method of figuring. I confess I do not always understand it but he certainly obtains remarkably accurate results."¹⁸

It is of interest to note that the Chamber of Commerce report made the suggestion, as part of its program of reform of estimating practices that the bases used in forecasting revenues should be made public. There are other recommendations to the same effect, it being commonly stated that past experience does not warrant acceptance of Treasury estimates as God-given truths and that the basis of the estimating should be made known. Others stress that it does not lie within the province of the average interested citizen or legislator to question whether economic conditions and other factors have been satisfactorily taken into consideration. The point to raise, it is claimed, is that taxpayers and legislators feel that the optimism or pessimism displayed by the Treasury and budgetary officials is such as to encourage doubts on their part. It is assumed that the forecasts regarding taxable incomes, prices, stock market movements, etc., be made public as indications of the background for Treasury calculations. Particularly the choice of economic phenomena that are deemed significant by the forecaster would be widely

¹⁸ Willoughby, *op. cit.*, p. 89.

publicized. It is hardly feasible for the Treasury to publish the detailed data which it must assemble and compute to prepare the estimates that appear in the President's budget. (Nominally, it will be recalled, the estimates are those of the President.)

The experts who prepared the "Arguments in the Negative" for the Chamber of Commerce report do not appear to have had any real proposal to offer.

The Committee recommends that the revenue estimates should be made more detailed, and should indicate the bases which have been used in making them. It is asserted that this would subject the estimates to closer scrutiny, would make the compilers more careful, and result in greater accuracy in estimating.

It is not probable, however, that much can be accomplished by a mere change in the method of estimating so long as the tax base remains highly unstable. Under an unstable tax system, a plausible argument can be advanced against almost any estimate, no matter what base has been used; and such a criticism, which may have political objectives merely, can be made at once upon the presentation of the estimate.

It would be but natural, under such circumstances, for the estimating officials to evolve a formula which would recite with respect to each unstable tax that due weight had been given to each important method of taxation. The formula now used in determining value in rate-making cases would furnish a ready pattern. Such a formula would put the critics at a disadvantage.¹⁴

The publication of some further data, much of which would not carry any deep political significance, is definitely commendable. The President must be informed of the assumptions that underlie his estimates. If the estimates are made public and are used as the basis for his recommended fiscal program there should be no objection to making public some part of the underlying ideology. Unless the time of the budget submission in relation to the fiscal period is revised the President could discuss critically only his estimates of the penultimate year. This point should be borne in mind in relation to the suggestion that the budget be submitted after the records of only the immediately preceding period are available.

The publication of the bases, as proposed above, would not involve any divulging of the estimates or the information that underlies them before the budget is made public. As has been stressed the British estimates of expenditure are public property as soon as they are prepared while those of revenues are not. The careful guarding of the budget speech estimates is desirable, not only from the point of view of its effectiveness in preventing any action leading to an avoidance or nullification through anticipation of the proposed tax charges, but because it centers public interest on the estimates. It is of interest to note that one French Ministry, that headed by Daladier in 1932, decided to abandon

¹⁴ Report of the Special Committee on Federal Expenditures, *op. cit.*, p. 17.

the usual French practice of announcing estimates and budget plans in advance of the final budget submission. They saw in this an opportunity for the organization of the opposition.¹⁵ Such interest has been deemed desirable as a factor leading to better estimates. Young indicates that not even a hint of the contemplated change in taxes or the estimates is given in Great Britain. He notes "The finance of the year might be seriously compromised, speculation would be rife and the consumer would gain no ultimate benefit."¹⁶ It is reasonable to assume that the interest in the estimates on which the proposals will be based is heightened by their secrecy and eventual dramatic publication.

(b) In the discussion of practices that follows, the problem of changes in the time relationships during the preparatory period will be studied. At this point it will be stressed that the time relationships are of the deepest significance for revenue estimating efficiency. Two results are achieved by limiting the interval between the preparation of the ultimate estimates that are used for policy making and the period itself. First, the element of projection in this case the time area which must be covered by the forecasts, is reduced. Second, the information that is at the disposal of the estimators is increased and its implications made increasingly clearer as the interval alluded to above is shortened. Particularly the accomplishments of the last or current period should be known together with the facts upon which the tax yields of the new period will be based. There can be no question that for the bulk of the taxes used in modern governments, the accuracy in estimates can be achieved by a shortening of the interval between the submission of the estimates, in our case to Congress, and the beginning of the fiscal year. The interval can, as in Great Britain, be reduced to the point of being a negative quantity, in that submission takes place after the opening of the budget period. The importance of net income taxation justifies its use as an example.

The British, through a system of preliminary taxpayer canvassing, know the taxable income that representative taxpayers will report for the calendar year which closed three months prior to the close of the fiscal year. Furthermore the collections for the current period will have been completed and the authorities will know the extent to which their most recent estimates have erred or been justified. At present the federal budget contains estimates prepared in December. Taxpayers have not as yet ascertained definitely the taxable incomes that they will report. Even if a method of preliminary taxpayer canvassing could be devised in December, before the close of the calendar year for which most taxable incomes are measured, it could not attain the efficiency of the British practice. To the best of the author's knowledge neither the federal government nor any of the states engages in such practices designed to facilitate forecasting. The following quotation from a leading newspaper giving informa-

¹⁵ N. Y. Times, Feb. 1, 1932.

¹⁶ Young, *op. cit.*, p. 46.

tion released by Washington on December 28th shows that at that date (the latest at which the President's plans regarding taxation and expenditures may be made if they are to be included in his annual budget message) the basis for planning the tax program was lacking:

Washington plans for possible suggestions for tax legislation were believed today to be largely dependent on the totals of the March 15 tax collections.

It was suggested today that the March returns would give the Treasury a good idea of the business situation and form the basis for estimates of future revenue.

Officials see no reason at this time for revising their estimates downward. It was estimated that for the current fiscal year income taxes would yield \$2,303,000,000, as compared with \$1,426,000,000 in the 1936 fiscal year.¹⁷

The President necessarily submitted a budget program that lacked comprehensiveness. Actually his 1937-38 message omitted an important expenditure element, and did so in part because tax plans could not be definitely made known.¹⁸ The revised estimates, which are prepared by the federal government late in June and which take into account the action of Congress as well as new information, correspond (without any reference to Parliamentary action on tax matters) to the estimates which the Chancellor in Great Britain prepares a few days before his speech is read. The superior time arrangements are evident.

(c) The opportunity to obtain pertinent information, to use available talent, to improve and refine methods and techniques, and to enjoy all the advantages which have been discussed as contributing to better estimating are elements that may or may not be used. It is obvious that in estimating there are some practices that are superior to others. It is not reasonable to assume, in view of what has been said regarding tradition and other factors, that all the leading jurisdictions are equally advanced in these matters. Statistical techniques are constantly being devised and improved, and there must be some cultural lag in their testing and use. In the case of national governments the problem of cost and ability to tap available talent should not be a reason for poor estimates. It does not lie within the province of this study to attempt to inquire into the conditions in national governments. It is evident, however, that this factor of materials and techniques is a most important one for the states. It may be safely anticipated at this point that the budgetary practices in American commonwealths produce poor estimates partly because they do not follow the right policies. Even taking into account such factors as limited financial resources and the limited talent that can be utilized there is a vast room for improvement.

¹⁷ N. Y. Times, Dec. 29, 1936.

¹⁸ The March 1937 income tax collections again revealed faulty estimates. It was reported that a message on revised expenditure policy would result. See N. Y. Times, April 2, 1937; also April 15, 1937.

Summary National Revenue Estimating

Besides the knowledge of their experiences and of the contribution of their theoreticians, the foreign nations, except those mentioned, have contributed little to the problem of estimating other than to bring again and again to the forefront the great difficulties and needed reforms that are involved. In all nations that have been subjected to economic, political, or fiscal disturbances the cry of "manipulated estimates" has been raised. Certainly there has been inefficiency and backwardness and poor economic conditions in the countries that have as often been harmed by poor estimates as they have benefited from them. Since there is universally no element of legal compulsion in the estimates other than those taxes of the so-called apportioned type, there is no ultimate means of taking offending officials or governments to task. It is a point in budgetary administration in which the force of tradition and ability is still informal in character. The solution is evidenced by the tradition and confidence that have been built up in Great Britain. In each country the improvement of the fiscal and budgetary systems will tend to enhance estimating potentialities. With the removal of political influences, the re-arrangement of the time factors, and the provision for more adequate estimating staffs, a great advance will have been made. The importance of the problem has been summarized in the Chamber of Commerce Committee report. Its conclusions dealing with the federal government are capable of universal application.

In commenting on the inaccuracies of estimates, various extenuating factors must be considered as a matter of fairness. Discrepancies between estimates and actual results must be considered in relation to the size of the budget. The time element involved makes accurate forecasting exceedingly difficult. Congress, acting within its proper jurisdiction, has frequently made decisions subsequent to the submission of the original estimates which affected revenues or expenditures, or both. Nevertheless the essential point is that serious inaccuracies in executive proposals hamper at its very inception the development of a satisfactory fiscal program.¹⁹

Revenue Estimating in the American States

In recent years the growing variety and the increasing importance of non-property taxes in state financial systems has demanded a revision of estimating practices. A problem that previously existed only to a limited extent has been brought into being by the trend in all jurisdictions towards the adoption of cycle-sensitive levies such as income taxes, security transfer taxes, and other similarly unstable taxes.

Not only have the kinds of taxes levied emphasized the importance of estimating procedures; the use to which such estimates are

¹⁹ *Report of the Special Committee on Federal Expenditures, op. cit., p. 6.*

put by virtue of state execution and unity practices must also be considered. The various financial policies, such as the assignment of revenue, sharing with the localities, and inadequate borrowing powers, tend to emphasize the need for efficient estimating abilities. The problem is indeed not one that has been sufficiently emphasized in the budgetary techniques which, as has been repeatedly stated, are adjusted primarily to a property tax ideology. Even for jurisdictions that still depend primarily on the general property tax for the financing of their expenditures, much of this discussion cannot be considered to be superfluous. There are also new problems in connection with the forecasts of property taxation yields. For instance it has been recommended that:

Adequate allowance should be made for failure to collect the entire amount of the tax levy. It appears to be frequent practice to make insufficient allowance, or even at times no allowance whatever, on this account. The financial difficulties of many state and local governments have been aggravated by inadequate allowances for tax delinquency in the face of obvious inability to secure full payment.²⁰

In spite of the scope of the problem in the American states one finds that not a single one of the forty-eight jurisdictions makes a satisfactory contribution towards the solution of the estimating problem. In almost every commonwealth the situation is needlessly complicated. The specific mention of revenue estimates in a few states show an utter disregard of the basic difficulties. In West Virginia, for example, the official charged with the preparation of estimates is expected to furnish revenue forecasts by months for the ensuing biennium. This merely tends to enhance the amount of guessing that is required and shows that the law does not appreciate existing conditions. Another instance and one unique with respect to its indication of some statutory regulation as to method is found in Arkansas. In that jurisdiction it is reported that the State Auditor is required to prepare estimates of the ensuing biennium period "basing his estimates on the income of the two preceding years."²¹ There is no indication that the Auditor follows the letter of the law. It is earnestly hoped that he does not and that he pays some attention to current and future economic developments.

It is evident that few if any of the jurisdictions are equipped for the task that confronts them. Forecasting the yields of income and sales taxes is not something that can be done by untrained officials. Forecasts based on hunches and intuitive guesses are not sufficient. The incidence of their success and failure is too intimately tied up with the economic and social well being of the community to be neglected. We have had periods of unprecedented economic change and we have taken for granted

²⁰ *State and Local Budgetary Methods, op. cit.*, p. 11.

²¹ *Ark. Dig. Stat.* (Crawford and Moses, supp. 1931), § 4939.

the breakdown of the revenue collections to be the cause of the difficulties with which the states have met. These were difficulties, however, which to a marked extent should have been anticipated in the sense that revenues conform to true economic conditions, not to false guesses regarding such economic conditions and to their effects on the fiscal system.

It lies within the nature of certain taxes that they are not predictable to any marked degree. There are such lags in the relationship of the time of estimating to the economic phenomena upon which the tax is based that any estimated techniques cannot reach the accuracy possible with other taxes. For example, the security transfer taxes that are levied in New York, Florida, Massachusetts, Pennsylvania, and South Carolina, by their nature cannot be accurately forecast by other means than by the projection of trends or some other method of prophesying future phenomena. There is no known base to which the tax can be linked at the time the estimate is made. The officials of the New York State Tax Commission in December, 1935 had no information on which to base the magnitude of the security sales on the New York exchanges and over-the-counter during the fiscal year ending on June 30, 1937. Neither are they in any position to know the trends with respect to the prices of securities and the popularity of low-price against high-price issues. There are marked variations between heightened activity and dull trading on the exchanges. The potential margin for errors in tax yield forecasting is extremely significant.

Fortunately-the states do not all have to cope with taxes of such types nor do states that have them, rely too heavily on them. In New York, however, the security transfer levy does have an important position and can spell success or failure to the State's financial program. The commonwealths levy such taxes as those on sales of gasoline which have shown a limited sensitivity to basic economic changes. They levy specific taxes on articles of mass consumption with relatively inelastic demands. They levy general sales taxes on economic transactions which vary within much smaller limits than security transfer levies. They may also have sufficient property taxes to supply a strong compensating and stabilizing element. With respect to taxes such as those on income and inheritance the officials must be equipped to know as much as possible of the economic phenomena upon which the tax yields may be based. They can, as do the British, considerably reduce the time period over which revenue estimates must be made. This holds true only for the states that have annual budget periods and for the first year of the fiscal period of other states. We note here again a factor pointing to the conclusion that biennial periods are undesirable. The point to stress is that the states would benefit from such opportunities as the nature of the tax affords them. They should possess such knowledge as is available, they should have the staffs and the other necessary equipment to benefit from such information, and above all, they should make every effort to place a realistic and honest interpretation on their revenue estimates.

Summary: Revenue Estimating

In the discussion of revenue estimating problems in national governments some of the ways in which budgetary procedures might contribute to the improvement of estimating results were noted. A jurisdiction like New York may be related to the discussion. All that has been suggested as desirable for the leading nations may be applied to this State with its huge annual non-property tax levy.

There are some aspects that apply only to a political subdivision. One of these aspects is the coördination of federal, state, and local finances. A revision of the present arrangements cannot fail to bring in its wake a new distribution of estimating problems.

At present the crediting device offers no opportunities of federal assistance to the states in the form of an estimating service. The availability of federal income tax returns will help check evasion but cannot possibly shift any of the estimating tasks. It is, however, inconceivable that for a long time in the future the present multiplication of efforts will continue and that some mutual assistance in the estimating scope of tax administration will not appear. New York levies at least eight major taxes which are duplicated by the federal government: the personal income, corporate income, inheritance, gasoline, alcoholic beverage, admissions, stock transfer, and selected insurance company levies. Neither jurisdiction can point with pride, as may the British, to the superiority of their revenue estimates. It is not to be expected that any state will ever be able to solve its estimating problems when its limited finances force it to pay its Governor less than the federal Treasury experts, trained for such statistical performances as the computation of multiple correlations, receive. The states must, therefore, hope that Treasury estimates will improve to the point where they can rely on them as indications of the influence of economic conditions on future tax yields. They must postpone their ultimate revenue revisions until the Treasury and some of the leading states, including New York, which are subject to similar economic influences, have made their contribution. Ultimate solution lies in terms of an integration and coördination of tax yields and a shifting of a burden, which the states for the most part are not equipped to carry, to a central tax collecting agency.

Problems of Expenditure Estimating

The fact that budgets have been considered to deal primarily with expenditures has led to a frequent analysis of the expenditure forecasting problem. For the variable phase of a state's outlay, chiefly that fixed by contractual relationships or legislative formulae, some of the needs have been recognized, and met to a very limited degree. Cost analysis accounting, comparative studies, efficiency surveys, etc., have been suggested. The problem has received wide recognition in administrative studies. Budgetary systems as well have been adapted to them. A survey of the basic budgetary statutes

and amendments reveals that they outline, frequently in great detail, the procedures to be followed in preparing expenditure estimates. The problem of fluctuating economic backgrounds, to be sure, has certainly not received its deserved measure of recognition. Such outlays as relief costs are not capable of being estimated with any degree of accuracy literally years before the outlay is to be expended. They are nevertheless of great volume and of deep economic and social significance. No recognition of the special needs of such outlays is found. The depression appears to have brought out two types of effects of poor expenditure forecasting. Savings which might have been made with a lessened sacrifice of social functions were not made. On the other hand the increased demand for governmental functions was not correctly gauged.

The analysis of the specific problems of expenditure policy and the interrelationships with budget preparation practices would require an intimate knowledge of state expenditure systems. It is essential that the problem be studied if the fiscal efficiency and adjustability of state fiscal systems is to be realized. Nevertheless, the problem is not treated here. Its implications are too great to permit even of the broad generalization made in connection with revenue estimates.

Some indication of the type of practice and of the methods that will improve the budgeting of limited resources might be gained from a survey of national finances. In many European countries the absence of credit resources, coupled with a fear of inflation and added taxation, has created a vast amount of experience with budgetary devices designed to assure the most economical husbanding of funds. While a large part of these devices deal with the execution stage, many are concerned with estimating and planning. The German experience, in particular, is a rich mine of data for the study of the problems mentioned above.

As long as the states are not permitted or are disinclined to borrow it is not reasonable to expect that they will have the ability to disregard expenditure instability. They must therefore restrict the scope of continuing items, pay greater attention to costs as well as functions, and in general adjust their philosophies and procedures to greater flexibility.

Whatever the estimating devices and methods that may ultimately be suggested as best adapted to the institutional background of the American states, none of the conclusions that are pointed primarily towards revenue issues need be considered as likely obstacles or interferences in fiscal planning of any kind. Underlying all devices and methods for greater efficiency in expenditure estimating are the greater talent available to the state, a more beneficial time relationship between planning and accomplishment, and a better coordination with financing media. The discussion below will be in terms of such needs. Particularly the time lags and intervals that characterize state budget practices concerned with the preparation stages stand out as the first line of attack.

CHAPTER XXVI

PREPARATION PROCEDURES IN NATIONAL GOVERNMENTS

The methods that are employed in the various jurisdictions in connection with the formulation of the budget program are discussed in the pages that follow.

It is comprehensible that the legal provisions as well as the actual practices stress the preparation of expenditure estimates. The preparation of such estimates requires time consuming and coöperative relations between governmental agencies. It must be recalled that expenditure policies require a coördination of revenue prognostications. The fact that the systems do not as a rule take these into consideration will become evident.

Great Britain

The procedures in Great Britain are first outlined. They offer an opportunity for observing a system that does not display the usual neglect of revenue estimating requirements.

During the summer months discussions are begun between the departments and the Treasury officials assigned to them. These are of an informal nature since the actual preparation of the estimates does not begin until October. It has already been noted that the departments must receive Treasury sanction for any changes contemplated by them from past budgets. This necessitates beginning the discussions at an earlier stage than would be needed when no disputes or exercises of authority are concerned. Other jurisdictions that postpone controversial action till the adoption stage still require less time than the British, who more or less settle fiscal policy in the preparation stage. On October 1st a circular letter is issued by the Treasury to the departments. According to Young¹ it contains stereotyped admonitions claiming: (1) that the state of the public revenues demands utmost economy and (2) that old estimates must not be used as a starting point.

More significant than these clichés is the requirement that the departments fill in comparative and explanatory data and justify all estimates, although there may be no indication of any change or increase. The finished estimates are to be returned to the Treasury on December 1st, which, it will be noted, is but four months before the beginning of the fiscal period to which they refer. In view of the fact that the estimates are submitted to Parliament members and are known by them before the sessions begin, it is obvious that the actual date of their completion is

¹ Young, *op. cit.*, p. 23.

very close to the beginning of the period they cover. The budget speech is usually delivered about the middle of April, which is well after the opening of the period to which it refers. Chancellors must read their budget speeches to Parliament before May 4th. It is seldom that the announcement of the financial program is postponed until that date.

The basis for the successful time relationships in Great Britain is no doubt linked to the fact that the budget message is submitted to Parliament after the period it is to cover has begun. The expenditure estimates are previously prepared and known, but they are not coördinated with the revenue estimates; major items affecting the direction of fiscal policy are not publicized until the budget speech. Buck noted that:

The financial year in England coincided with the calendar year until 1854, which necessitated presenting the budget to Parliament either long before, or some time after, the opening of the period. The former procedure, according to Bastable, made accurate estimating almost impossible, while the latter compelled the government either to make expenditures without parliamentary sanction, or to resort to excessive use of "votes on account."²

The British then chose the present procedures and dates. This feature of the British system is worthy of emphasis, since it tends to contradict the usual conception of the budget as projectory. This delay of the preparation and submission of the budget is not only encouraged by efficient and businesslike estimating methods, but is possible because of the restrictions both legal and traditional on the types of revision regarding fiscal matters into which the Parliament may enter.

The periodic change of the executives responsible for preparing a fiscal program does not occur in Great Britain and many other nations. It is a problem that the United States meets with considerable frequency. The change of a Cabinet may however disrupt the smooth procedure outlined above. In the post-war period there is an instance of a change in government that gave the new Chancellor of the Exchequer a shorter period than usual for the preparation of his estimates. It is indicated that in the 1925-26 budget Churchill asked for £10,000,000 more than the estimated appropriations in the previous year. Instead of allocating the increased demands to any specific expenditures, he merely stated as one of his main reasons for such action "the shortness of the time since the last election for the searching and comprehensive scrutiny of expenditures which was required."³ This incidentally points to one difficulty which is found with the British system, namely the failure to cope with the contingency of a change in government.

² Buck II, *op. cit.*, p. 128.

³ Mallett and George, *op. cit.*, p. 125.

The Empire Group

In nations that have adopted the British type of practice, similar efficiency is found. In Canada it is indicated that estimates of expenditures are prepared in the fall by the various departments and are then submitted to the Department of Finance. The several revisions which the government and the departments undertake are timed to allow submission of the estimates to Parliament just before the fiscal period beginning on March 1st. It will be noted also that the practice of a submission of expenditure estimates prior to the introduction of the complete budget program allows for an even more efficient preparation of the final revenue estimates upon which tax legislation is to be based. In view of the fact that the tax proposals are first made known to Parliament in the budget speech delivered at the first session of Parliament within the fiscal period, they can be based on a complete review of the accomplishments of the prior period.

Similar compactness with respect to time characterizes the practices of Australia and New Zealand. In Australia it has been reported that the estimates of expenditures are prepared by the departments as late as three or four months before the beginning of the fiscal period, which like that in the United States, is fixed at July 1st. The departmental estimates are first compiled by the Treasury. After their revision they are returned to the departments. Estimates are finally returned to the Treasury for their approval before submission to the Cabinet. There is no indication that Australian practice calls for submission of expenditure estimates before the revenue estimates. A budget speech is delivered to Parliament by the Treasury head soon after the opening of the fiscal year. This allows for careful analysis in terms of the completed accomplishments of the previous fiscal year.

In New Zealand the procedure differs slightly from that found in the usual British-type budgetary system. The entire budget loses much of its prophetic character in view of the postponement of the preparatory stages well into the fiscal period which begins, as in England, on April 1st. Some might claim that New Zealand does not have a projectory budget. The departments are not required to prepare their estimates of their proposed expenditure until the month of May. At that time they receive from the Treasury the instructions with respect to the general fiscal policy to which they must adhere. In May the estimates are also returned to the Treasury with explanations of any changes made. Permission from the Treasury for new expenditures has already been granted or refused by this time.

The expenditure estimates, as in Great Britain and Canada, are made known to Parliament before the making of the budget speech, which contains primarily coördinating revenue proposals. The delay in the submission of revenue expenditure estimates is extreme since the normal procedures in New Zealand have called

for a submission of the budget to Parliament as late as the fourth to eighth month of the fiscal year. It should be noted that this may imply an abandonment, in practice, of the legal dates of the budget period. The entire system functions for a period more in conformity with preparation and adoption dates. In any event the procedure in New Zealand calls for the greatest delay that can be noted. Special circumstances must surround its existence, and it is questionable whether the practice is worthy of recommendation for other jurisdictions.

The practices in British India are not the best of the Empire group. The time relationships in particular are said to be in conflict with India's individual problems of fiscal efficiency. The fiscal year begins on April 1 and the budget, containing both expenditure and revenue proposals, is submitted to the Legislature late in February or early in March. The accomplishments of only ten months, at the most, of the current period can be taken into account. This would not in itself justify much criticism, if any. However, a real defect exists in the fact that the April 1 date is unsuited to India although it appears to be the usual date in the British Empire group. A local authority claims that the date was chosen and is retained because of its convenience in terms of the season during which English officers go on their leave.⁴ The Finance Department is required to prepare the revenue estimates before the end of March. It can at that time have no notion of the economic effects of the June to October monsoons which have such a fundamental bearing on agricultural conditions.⁵

A shifting of the beginning of the fiscal year to November or December has been recommended. A failure to link properly the preparatory dates to the economic and fiscal accomplishments which affect the coming fiscal period results in a tendency to link estimates to the past. A very interesting fact emphasizing the necessity for reform in this Indian practice is seen in connection with the railroad budget. It may be that this is maintained separately and accorded differing preparatory practices because of the fact that its earnings and spendings are based almost exclusively on the fluctuations of agricultural and trade conditions. No attempt at estimates can be made with the type of information that is available to those preparing the general estimates.

In the Irish Free State the preparation is made under time relations similar to those of Great Britain. Perhaps even a greater degree of moving all stages closer to the fiscal period is evident. The departments and sub-departments prepare their own estimates of expenditure in December and forward them to the Department of Finance not later than January 1st. The usual British type of restrictions on the changes that may be introduced are

⁴ Gyan Ghand, *The Financial System of India* (London, 1926), p. 31.

⁵ Shirras also stresses the fact that the estimates prepared before the monsoon falls must be uncertain. Shirras, *op. cit.*, p. 962.

operative for this period.⁶ The revisions and consultations take place prior to the submission of the expenditure estimates to the Dail before February 15th. This is six weeks before the opening of the fiscal period. It should be noted that only the Supply Fund Services are submitted at this time since the Central Fund Service estimates are prepared in the Department of Finance and are presented to the legislators after the opening of the period. This is possible because the Dail receives such estimates for informational purposes only, there being no provision for a Parliamentary review of these continuing items. The budget speech containing the review proposals and estimates is made by the Minister of Finance about the second week in May. This is somewhat later than the corresponding British date since it may be presented after the date on which the British appropriations must be voted (May 4). With their practice of delayed budget submission the nations in the British Empire group suffer no disadvantages from the timely preparation applied to their estimates.

Germany

A few nations follow the April 1-March 31 budget periods. In republican Germany a time lag more characteristic of the United States and France than of Great Britain is noted. Not long after the opening of a new period, preparation of the estimates for the following year began. It was indicated that the departments had already completed the estimates of their own requirements on August 15 and were required to submit them to the Minister of Finance before that date. Between August 15 and November 1, at which time the budget was submitted by the Minister of Finance to the Council of the Reich, the various revisions and conferences between the Finance Ministry and the spending units took place. In view of the fact that the Council

⁶ "The Standing Instructions to Accounting Officers" deals exclusively with the method of preparing the Estimates. The main instructions may be briefly summarized as follows:

(a) The printed Estimates Forms, forwarded with the Circular, must be completed in duplicate and sent to the Department of Finance by December 1st.

(b) There must accompany the Forms statements in duplicate "explaining and justifying seriatim the amounts provided in the Estimates under each Subhead of expenditure," and in the marginal column there must be set out under each Sub-head the amount of the proposed Estimate together with the actual expenditure for the past three years, and the current expenditure to date.

(c) No provision should be inserted for any matter or service not already sanctioned by the Department of Finance. If, in an exceptional case, this may be necessary, then the proposal should be submitted for sanction immediately, so as to allow of due consideration before the Estimates assume their final form.

(d) Authority for a new or increased expenditure must not be inferred from the fact of its having been from any cause printed in the Estimates before the proper official sanction has been given. O'Connell, *op. cit.*, p. 4.

was both an executive and legislative body, its acts with respect to the budget may be said to have terminated the preparatory period.

It should be noted that the Cabinet of the Reich informally reviewed the budget prior to its submission to the Council, thereby furthering the contention that the November date terminates the preparatory aspects. As far as the public and the Reichstag were concerned, the budget was submitted on January 5. This is about the same date as is found in the federal government of the United States. It suggests the feasibility of changing the date of the fiscal period. Neumark, the foremost student of the German system, indicates that political and economic conditions in the Reich were such as to make it impossible for the estimates to be prepared and completed in a period shorter than the nine months employed for that purpose.⁷ The fact that the complexity of the German financial system requires lengthy preparation periods is further borne out by the experiences of the National Socialist government in its early years. A postponement of the budget practices was necessitated by political events in 1933. A delay of three months was made in order to enable the new Finance Minister to adjust his ideas to the changed political situation.⁸

Other Nations in the April 1st-March 31st Group

In Greece the preparation period appears to be unduly long. Although the fiscal year does not begin until April 1, the revised estimates, are submitted to the Director of the Budget before June. It should be noted that prior to this submission each Minister has compiled the needs of his department and has received the approval of the Finance Minister for his recommendations. Following approval by the Director of the Budget, hearings are held which last until the end of September. There is a legal requirement that the budget be submitted to the Chamber not later than two months after the opening session in the first week of October. The required submission must therefore take place before the middle of December. The arrangement in this Balkan nation is comparable to the practices in most of the American states.

Denmark and Rumania also adhere to the April 1st date for the beginning of their fiscal period. In Denmark the spending departments are required to submit their estimates to the Minister of Finance for review some time during the month of August. Between that time and the submission of the proposed finance act to the Rigsdag not later than the first Tuesday in October, the various revisions and inter-ministerial conferences take place. The system adopted does not appear to require such a lengthy period for coördination and review by the Finance Minister, since other Ministers may with his permission submit their own estimates to Parliament. This feature, which has been

⁷ Neumark, *op. cit.*, p. 81.

⁸ Dalton, *op. cit.*, p. 63.

encouraged in order to allow the appearance of divergent viewpoints, contrasts sharply with the practices found in other countries. In the United States there is some indication that individual members of the important committees in Congress are acquainted, at the time of voting, with the expenditure estimates which the departments originally submit to the Bureau of the Budget.

In Rumania the recently adopted April 1st date was changed from January 1st. Under present procedures a rather compact and noteworthy limitation of the length of the preparatory stages is noted. Contrasted with Denmark, the spending agencies requesting funds need not submit their estimates to the Minister of Finance before January. The various reviewing stages and the preparation of the revenue estimates must be completed before March 1, on which date the law requires the submission of a financial program by the Minister of Finance to the Chamber of Deputies. This appears to be among the most efficient allocations of time periods.

The nations in the April 1st-March 31st budget period group show clearly that a margin of advantage for the preparation of better estimates may be gained.

July 1st-June 30th

United States Federal Government:

Hungary, Italy, and Sweden among the nations surveyed follow the United States in its frequent choice of the July 1st-June 30th period as the fiscal year.

The practices in the United States federal government do not show the temporal efficiency characterizing those of Great Britain. They are nevertheless not unfavorable in the light of those that will be discovered in some other nations and in most of the American states. Sometime during the summer months the President makes known his basic policy on the fiscal program. The estimates submitted by the spending department of the Budget Bureau may be said to be largely the work of the departmental budget officer.

The departments and spending agencies are requested to submit their estimates to the Budget Bureau by September 15. A provision calls for a submission of estimates by the President if the spending agencies fail to prepare them by that date. Willoughby has noted that in the early years of the system's actual practice, the submission date has been as early as July 15 for some unofficial preliminary estimates. These represent attempts to gauge fiscal needs solely on the basis of accomplishments of a fiscal period twice removed from the one in which expenditures will take place, since there has been absolutely no opportunity to observe the functioning of the current fiscal period.

Between September 15 and November 1, during which time the expenditure estimates are prepared and informally submitted to the members of the House Appropriations Committee, hearings are held and the revisions of the departmental estimates are made. The detailed procedures whereby an attempt is made to bring about a conformity of estimates with the program desired by the administration cannot be explained here. It varies with all

the factors, which may be different at each budget period. It should be noted, however, that the amounts, which are determined by the negotiations between the departments and the investigators for the Budget Bureau and which are approved by the Director of the Budget, represent the maximum amounts that the department heads may request when they appear before the Appropriation Committee to defend their estimates. American practice also places no restrictions on expenditure bills which may be and are introduced with administrative sanction outside the budget estimates. The importance of these early expenditure estimates must therefore not be overemphasized. The informal submission of the estimates to the House Appropriation Committee takes place eight months prior to the period dealt with, and the publication of the expenditure estimates and the revenue proposals and estimates, takes place shortly after the opening of Congress, which according to the recent Constitutional amendment takes place on January 3rd. The budget program with which the public becomes familiar has the benefit of a review of only six months' accomplishments of the current fiscal period and imposes a more difficult estimating task upon the executive.

The Special Committee on Federal Expenditures of the Chamber of Commerce has commented upon the necessity for reform of the time elements. This is interesting because of its similarity to recommendations that can be made for the majority of the American states, which in many cases are responsible for even greater delays than is the federal government.

The time element involved in present practice makes accurate forecasting almost impossible. The fiscal year begins July 1 and almost at the same time the spending units must begin compiling expenditure estimates for the following year, in order to submit them by September 15 as now required by law. Revenue estimates present an even more difficult task, for in this instance business conditions which so largely affect revenues must be predicted. In times of prosperity revenues have been consistently under-estimated and in times of depression just as uniformly over-estimated. Accurate forecasting, nearly a year in advance of the beginning of the fiscal period covered and approximately two years before its close, cannot be expected.

The time element should be so arranged as to give the Executive a fair opportunity to make reasonably accurate estimates. In England, which has long been noted for the accuracy of its estimates, the budget is submitted shortly before the beginning of the fiscal year covered and, if appropriations are not passed prior to the opening of the fiscal year, temporary grants are voted.

It would seem entirely feasible to have the executive estimates submitted later in the Congressional session, say, about the first of March. Congress could concern itself with other matters in the earlier part of the session and would have four months before the beginning of the fiscal year in which to

enact the necessary appropriations. It would not appear difficult for Congress to devise rules that would assure reasonably expeditious enactment of appropriation bills. Such an arrangement would tend to improve the accuracy of the estimates, afford more opportunity for conferences between the executive and legislative officials during the process of compiling estimates, and likewise avoid the unsatisfactory situation which will arise under present conditions when a new President is inaugurated.⁹

The suggestion of the Committee that the period begin as at present on July 1, but that the submission period be advanced to March 1, is one which could be adopted with great facility as well as advantage. No change in the dates of governmental records, congressional sessions, or any other firmly rooted practices need be made. The Twentieth Amendment to the Constitution, now operative, provides a suitable and almost provocative background for the change. Congress, meeting early in January instead of early in December, as was the case when the Budget Act was passed, would not be delayed in adjourning by a delay in the budget submission. The chief advantage of the change is apparent, when a newly-elected President takes office. At present the President-elect is inducted after his predecessor submits a budget falling entirely within the term of the new administration. The outgoing administration could be relieved of this "lame duck" budget preparation and submission if the March 1 date, as suggested by the Committee, were adopted. There is, however, one major disadvantage in the Committee's proposal. There would be two months during which Congress would be in session and during which the Executive's plans would not be public or even possibly completely known to him. Such a procedure is rare in this country, although it is not unknown abroad. It would probably encourage a vast quantity of extra-budgetary financing and would remove a large sphere of tax reform from a close correlation to the budget. One solution might lie in an early preliminary submission of expenditure estimates.

The suggestion that the budget period be shifted to the calendar year is made for some of the states and is worthy of consideration for New York. The idea is briefly analyzed in terms of the United States federal government. The advantages are obvious. The President, in submitting his budget message, could make some immediate provision for the first few months of the fiscal period. There are technical questions involved in post-period voting but, as shown below, several major jurisdictions have met them with success. Congress and the President would know the results of the period just closed and would have reduced to a minimum the forecasting necessary to interpret the conditions and needs of the current year. It would be necessary to make some adjustment for a new President; this need could be solved by an extension

⁹ *Report of the Special Committee on Federal Expenditures, op. cit., p. 6.*

of the submission date, thus giving a few months of the new President's term a type of provisional financing, possibly linked to the old Administration's policies. Prior to 1842 the fiscal year coincided with the calendar year. Buck reports that the change was made by Congress in order to finance the interim between the new and old appropriation authorizations.¹⁰

Other Nations in the July 1st-June 30th Group

In Italy the dates of the fiscal year conform to those of the federal government. During August the *Ragioneria Generale Dello Stato* officer appointed to each Ministry compiles the estimates of requirements. Each Ministry is required to have completed its estimates before October 31. At that time they are collected and reviewed by the Finance Minister, and the various ministerial disputes are settled in conference. Although the completed budget is not submitted to the Chamber until January, some indication of its general content has been made known to the members of Parliament before that time. The dates of the submission to the legislature are of limited importance in Italy. They do, however, indicate the time at which the government has completed its financial program.

Also in Sweden the American pattern of fiscal dates may be noted. A somewhat later preparation period is found. The spending agencies are not required to submit their estimates until September. In a number of instances the date has been postponed until October 1. The revision of the expenditure estimates and their coördination with revenue estimates takes place before December 10 and the completed budget is submitted to the Riksdag on January 10.

Neumark notes that the July 1st date for the opening of the fiscal period in Hungary is related to the harvest period in that country.¹¹ The preparation of the estimates appears to be somewhat closer linked to the fiscal period found in the United States. The spending agencies are required to submit requests for funds, in the form of estimates, to their respective Ministers before December. The submission of the estimates by the Ministers to the Finance Minister takes place before the fifteenth of December. This is considerably closer to the fiscal period than in any other countries using the same dates. The other preparatory stages are completed in order to allow for submission of the budget program to the Chamber of Deputies in time for the completion of Parliamentary deliberations before the opening of the fiscal period.

The United States federal government and the other three jurisdictions in the July 1st-June 30th group offer only negative conclusions to the student of state problems. Since the practices of the federal government are important as an example for the political subdivisions some reform would be especially desirable.

¹⁰ Buck II, *op. cit.*, p. 128.

¹¹ Neumark, *op. cit.*, p. 49.

Nations in the Calendar Year Group

France, Belgium, The Netherlands, and Soviet Russia now operate on a calendar-year basis.

France's practices are interesting because the preparatory procedures as well as the dates have been the cause of much concern and discussion. It is indicated that in France the earliest preparatory stages begin eighteen months prior to the opening of the fiscal period which, according to the most recent reform, coincides with the calendar year. At that time, the middle of the penultimate period, controllers appointed by the Minister of Finance and attached to each Ministry begin the preparation of the departmental expenditure estimates. The complexity of the estimating task as well as governmental and political conditions may have tended to require such lengthy periods. They are, nevertheless, totally out of proportion to economic and fiscal realities, and contribute much to the rather weak semblance which the projected balance usually has to the actual accomplishments of the fiscal period.

The budget is submitted to the Chamber at least five months before the opening of the fiscal year (on January 1.) Thus a period of approximately one year is required for the preparation of the estimates as submitted. Such an early start would not be objectionable if the estimates at that time were not "frozen," and if there were a regular machinery for making revisions more in keeping with the conditions of the period to which they refer.

The time procedures were more unsuitable for the years during which the opening of the fiscal period was shifted to April 1. An interesting problem is raised by this indication of manipulation of the dates of the fiscal period. It should not without question be assumed that this action was part of a general tendency to shift fiscal years to a calendar basis.

Buck indicates that the change from the long standing calendar year period was linked to a scheme for greater fiscal efficiency. He notes

When the financial year of France began on January 1 (and Parliament met about the same time), it was criticized by Stourm as making necessary the preparation of the budgetary estimates some fourteen or fifteen months prior to that time, in order that the budget might be placed before the previous parliamentary session. This procedure, as Stourm pointed out, detracted greatly from the accuracy of the estimates. In 1929, the opening of the financial year was changed to April 1; but due principally to the frequent overthrow of the Ministry and to the dilatory practices of Parliament, this change does not seem to have remedied the situation of which Stourm complained.¹²

Allix emphasizes the fact that a political crisis caused the change of the fiscal year to be precipitated. He states that the

¹² Buck II, *op. cit.*, pp. 128-129.

change, made on December 27, 1929, took place because the Tardieu cabinet could not overcome some political opposition to the adoption of its budget.¹³ Undoubtedly the immediate cause could not have motivated such a significant act, had not the problem been an aggravating one. A few factors, other than the lengthy period and the possibility of submitting the budget at a later session, may be noted. The lengthy debates in Parliament meant that a budget submitted in November (as suggested by some) could never be discussed to completion in less than two months. It was proposed to begin the fiscal period three months later, and to move back the date of submission the same period of time. This would eliminate the constant need for provisional twelfths, without cutting down on the length of the debate period. At the same time the preparation period could be moved closer to the opening of the fiscal year.

In any event none of the desired reforms was achieved. The date was again changed so that the 1933 budget year began on January 1. Dalton aptly describes the resulting confusion.

In 1929 the financial year was changed so as to open on 1st April and close 31st March. To achieve this end the *exercice* of 1929 was lengthened by three months and thus ran from 1st January, 1929, to 31st March, 1930. But after two years' experience of this change it was decided to revert to the old practice, since the desired results of lengthening the period of discussion were not achieved, and because certain administrative difficulties were encountered. Thus the budget for 1932 ran only for nine months, from 1st April to 31st December, and the current budget for 1933 runs from 1st January to 31st December. These changes complicate comparisons of recent budgets.¹⁴

The return to the calendar-year date was of interest to the government which instituted the new change because of the fact that it could thus apply substantially all of a normal year's revenues for only nine months' operations during the crisis. During the brief experience it was found that the provisional twelfths were not eliminated because Parliament did not discuss the budget as planned. Jèze has stated that other important problems including the elections near April 1 kept the minds of the legislators occupied elsewhere.¹⁵ The handling of the accounts and the relations with the political subdivisions, all intimately tied to the old fiscal dates, prevented the new system from functioning smoothly.

The sad experience of the French seems to intensify the belief that the student should study French practices only for the thought and the discussion of budget problems involved, not to

¹³ Allix, *op. cit.*, p. 40.

¹⁴ Dalton, *op. cit.*, p. 272.

¹⁵ Gaston Jèze, "Le Changement de Point de Depart de L'Année Financière." *Revue de Science et de Législation Financière*—Jan., Feb., March, 1932, Vol. XXX, No. 2, p. 11.

measure the usefulness of any procedures. The idea of changing the dates of fiscal years so that greater efficiency and better time relationships might be obtained is important, and should not be based on political expediency or defeated thereby. Certainly as far as the United States federal government is concerned, the problem is beginning to receive recognition in terms of important fiscal implications, and there is no doubt that the future will bring about further revisions designed to eliminate time lags.

Belgium's preparatory practices conform to the typical pattern. The various spending agencies prepare their estimates and submit them to the Minister of Finance before July 1. The other necessary preparatory functions are all carried out prior to the submission of the budget program to the Chamber of Representatives. This takes place sometime before the end of September. The submission of the program to Parliament in a period not much longer than three months before the opening of the fiscal year is somewhat noteworthy for governments which do not attempt to work with a fiscal period already begun.

In the Netherlands an almost analogous time relationship is found. The Ministry of Finance has reported that the preliminary estimates are compiled by the Ministries during June, and are submitted by them during that month. The various revisions and coördination with revenue estimates are completed before the submission of the budget to the States General on the third Tuesday of September. A short interval between the opening of the fiscal year and the final voting is successfully bridged. The late submission is, therefore, not disadvantageous.

In Russia the estimates are said to be prepared by July 1 by the various departments, agencies, and units of the Union. A somewhat complicated plan of revision and review, as well as a coördination with the local budgets is required, and it is noted that a time-consuming series of conferences, etc. are necessary. Following the preparation of the estimates, they are submitted to the Union's Council of Commissars, which acts as a superior authority over the spending units, and the Commissariats of Finance. The restriction of legislative functions in effect in Soviet Russia limits the importance of the date on which the budget is submitted by the Commissar of Finance to the Central Executive Committee. It has been reported that such submission takes place before the opening of the fiscal period.

June 1st—May 31st: Turkey

In Turkey the unique opening date of June 1 is noted.¹⁶ The time requirements with respect to preparation, however, show the

¹⁶The League of Nations survey indicates that in addition to Turkey only Iran (March 21), Egypt (May 1), and three small countries of the Western Hemisphere, Honduras (Aug. 1), Paraguay (Sept. 1) and Haiti (Oct. 1) do not have fiscal years beginning with April 1 or July 1 or coinciding with calendar years. The survey reports a trend towards the adoption or re-adoption of the calendar year as the fiscal period. L. of N., Pub. Fin., 1928, 35, General, *op. cit.*, pp. 7-8.

usual delays. Estimates of the various Ministries are submitted to the Treasury before the end of September. A combination of legislative and preparatory functions similar to those noted in Germany during its period as a Republic, consists of the submission by the Minister of Finance of the budget to the Council of the State. The budget is transmitted to the Grand National Assembly before March. This is a legal requirement, although there is evidence that the actual submission dates have been earlier. As in the case of Italy, the submission dates are important primarily as they indicate the crystallization of the administration's program.

Summary and Conclusions

For purposes of arriving at conclusions applicable to the problems of most of the American states, the practices in the national units having fiscal periods beginning July 1 are of interest. Unfortunately none of the nations in this category, which includes the United States, has practices as praiseworthy as those found in the British Empire. The main features of the British systems, namely preliminary submission of basic expenditure programs and the delayed submission of revenue estimates as well as the comprehensiveness of the budget plan, are worthy of being emulated. The differences between systems that pay obvious attention to revenue features and those that do not, are clearly noted in these preparation systems.

The situations in England and in Germany bring out interesting points. In both these countries it was found inadvisable to attempt to reduce the time spent in working out the fiscal program. Initial surveys and discussions in both jurisdictions had to begin months before the final revenue estimates could be submitted. It is doubtful whether the suggestion that will be made for the American states, that unnecessary delays and slow procedures during the preparation period proper be avoided, can be applied to these two jurisdictions. Great Britain was able to gain the benefit of several additional months in bringing the final preparation stages closer to the new period. Even in the face of political institutions that might not have permitted a system as well-timed as that found in Great Britain, the Germans could have derived some advantages of delayed submission through post-period voting. The methods of bridging the intervals created by delayed voting will be discussed at a later point. They indicate that there are no insurmountable difficulties which would have militated against a more widespread adoption of methods relying on such procedures.

CHAPTER XXVII ✕

PREPARATION PROCEDURES IN STATE GOVERNMENTS

Budget Periods and Preparation Practices

In the American states the problem of preparation is complicated by the fact that the fiscal periods extend beyond one year in all but five commonwealths. The time lags in terms of months are, therefore, relatively insignificant, because estimating revenues and expenditures at the very beginning of the period would still involve forecasting and/or fixing of governmental requirements and revenue yields over a period of more than one year. However, it can be shown that this disability has seldom, if ever, induced states to ease the solution of their preparation problem. We can note, therefore, that on account of the length of the period the preparation practices create a more serious problem for the states than they do in national units. Analysis has indicated that thirty-five states follow the practice of the federal government and date their fiscal years from July 1 to June 30. Segregation in terms of the beginning of the fiscal period is permissible because of the fact that all of the states in the category, with the exception of Florida, Georgia, and Louisiana, have their regular legislative sessions beginning in January. This establishes a common starting point for discussion of preparatory adoption functions.

The wisdom of this practice of conforming to the federal dates does not seem apparent in terms of estimating although from the standpoint of fiscal coordination and the compilation of national statistics it presents a most convenient condition. There are six other periods found in the states. The calendar year coincides with the fiscal year in five commonwealths. The October 1st-September 30th fiscal period has three adherents, while two states follow the British in choosing an April 1st-March 31st period. Fiscal years beginning December 1, June 1, and September 1 are each found in one state.

As has been indicated in the case of the national units, the opening dates are significant primarily in relation to the legislative session and to the length of the various stages. It is difficult to conceive of any single state in the United States so dependent on one phenomenon as to have that dictate the needs of its entire governmental structure. We have, as in the case of the Dakotas, states that are primarily agricultural, but with different harvesting periods. Other factors, including a number that make fiscal planning independent of the agricultural prominence of the state, do not necessitate relating the dates of the preparation practices to specific phenomena, as in India or Hungary. A more detailed analysis of the estimating problems in each jurisdiction would undoubtedly require an economic survey, and would determine the best possible dates for forecasting economic as well as

fiscal events. It would be questionable, however, if budget systems should be revised on the strength of this one factor. As will be indicated below, the states engage in no real estimating practices at all and possess neither the desire nor the equipment and ability to do so. A discussion of their estimating problems brought to this fine logical conclusion would indeed be paradoxical with the known factors regarding their financial arrangements.

In addition to the time relationships, a few other practices that affect budget preparation activities are stressed. These include provisions for facilitating preparation by newly elected executives. Changes in personnel take place with great frequency. These affect the problem of budget preparation in almost all the states. Some duplication of the discussion on the budget preparing agency is necessary in order to bring out some of the practices in their proper setting. Other questions raised include the preliminary submission to legislatures.

Among the states dating their fiscal periods from July 1 to June 30 are some of the most important in the Union. Among the leading financial or geographically representative states, California, Connecticut, Florida, Illinois, Indiana, Iowa, Michigan, Minnesota, Nebraska, New Jersey, New York, West Virginia, and Wisconsin have the same fiscal dates as the federal government. Rhode Island and South Carolina are included because their annual legislative sessions and budget periods place them among the states with backgrounds upon which sound budgeting practices can be based. The problem of their preparatory practices and their time arrangements is considered below. The discussion then turns to the other states which maintain the federal fiscal period dates. Several states, including Massachusetts, have periods differing from the July 1st-June 30th pattern. Finally New York's system and possible avenues for its improvement are noted.

July 1st—June 30th Budget Period States (Biennial)

Most of the states in the July 1st-June 30th group have biennial budget periods. It is evident that these commonwealths have done little to facilitate the estimating burdens imposed on them, although the advantages gained would be relatively unimportant during the second year of their biennium.

California

In California approximately six or more months before the convening of the legislature the Director of Finance is empowered to request each State agency to present him with an estimate of needs for the coming biennium. The agencies are at the same time requested to submit to him the actual accomplishments of the first half of the current biennium and an estimate of the outlays that will be made in the second year. The Division of Budgets and Accounts analyzes the estimates that are submitted, and hearings are held between the Director of Finance and

the spending agencies. The budget, following its acceptance by the Governor, who presumably has been in accord with all actions of his Director of Finance, is submitted as completed in January. The legislative sessions which take place early in that month are approximately six months distant from the opening of the fiscal period. The estimates, therefore, have already been compiled by the agencies at least a year before the period to which they refer. Assuming that the agencies must begin their tasks even prior to the date of submission, a lag of three years may be involved. This is unfortunately typical of the states in this group.

Connecticut

Connecticut allows the spending agencies a somewhat lengthier period in which to prepare their estimates. Statutes call for submission by each State agency of its itemized expenditure estimates to the Board of Finance and Control not later than August 1 of each even numbered year. The Board, after holding hearings and compiling its own estimates, is required to report its recommendations to the General Assembly not later than the second week of its session, which is slated to begin early in January. Unfortunately one cannot stress the similarity here between national and state practices because of the fact that Connecticut is among those commonwealths laboring with a biennial budget period.

Florida

Florida does not in this instance display a poor budgetary practice. The statutes indicate that on or before the first of December of each even numbered year, each State agency must submit to the State Budget Commission the estimates of its expenditure needs during the ensuing biennium. It should be noted that the legislative sessions in the State are scheduled to begin early in April, thereby enabling Florida to require the submission of its estimates at a much later date than is found in most of the states. The limited magnitude of the State's budget that is controllable, is such that one may anticipate that the three months available before the opening of the fiscal period are sufficient for any recommendation which may be made. Since the budget must be prepared prior to March, the Budget Commission does not receive the full benefit of the delay for revising its estimates.

The chief benefit which theoretically accrues is found in the fact that the legislators are holding their meeting at a time when some indication of the economic conditions of the important tourist trade, the citrus crop, and other important factors may be noted. The federal legislature with its activities having an important bearing on state finances is also well advanced with its discussions in April. At least the federal budget has been submitted and some action with respect to it begun. These advantages are, however, only

nominal. The real reason for the short preparation period that is found in Florida may be inferred from the fact that it is one of the states in which departmental estimates must be included in the budget without revision. The work of the Commission is reduced to a minimum; it has only to add its own recommendations in the limited sphere of the budgeted fiscal activities. This eliminates the usual time consuming lag after the submission of the individual estimates by the spending agencies to the budget making agency for review and revision.

In view of the fact that the budget must include the departmental estimates one is inclined here again to question the usefulness of hearings other than their possible assistance in aiding in the formulation of the Commission's own recommendations. There is, furthermore, a possibly unique requirement that is similar to the practices of the federal government of the United States and of the British type budget systems. The legislators receive copies of the budget prior to its public submission. It is interesting to note that the statutes call for the receipt of this advance information on the budget by the legislators prior to their convening. Is it to be inferred that the legislators spend the intervening period in individual and sober contemplation anticipating serious discussions of the State's fiscal problem? There is approximately one month available to the legislators since the budget is presented formally to the convened legislature on the first day of its session early in April.

Illinois

In Illinois a somewhat short preparation period is indicated. On or before September 15 of even numbered years, the Director of Finance is required to distribute to the State's spending agencies the standard forms for the preparation of the expenditure estimates. These must be returned to the Director of Finance before November 1. This is quite close to the date of the submission of the budget to the legislature. The Director has two months in which to make further investigations and to prepare his own estimates for the legislature. He must submit his budget to the Governor not later than January 1. This is another example of this questionable requirement. The Director, as the Governor's appointee, presumably has already received his coöperation. The Governor, nevertheless, is given time in which to do his own work on the estimates, if he so chooses. Statutory requirements are that the Governor must present his budget to the General Assembly not later than four weeks after its convening early in January.

Illinois differs slightly from the other states in that it does not require submission of the budget at the earliest possible time after the opening of the legislature. This means closer proximity of the preparation period to the fiscal period and furthermore shortens the lag between the deliberations of the legislature and the time in which their recommendations take effect. It should be noted that the common requirement for hearings is absent.

Illinois furnishes proof of the statement that not too much credence should be placed in these statutory requirements, since actual practices may vary greatly. For several periods Governors failed to submit a budget to the legislature. This was incompatible with the State's statutes. The budget submitted early in 1935 consisted of only a summary statement. The Governor seems to have failed to fulfill the duties vested in him. His brief message alludes to this and indicates that the time at his disposal was not sufficient to cope with the crisis in the State's finances.

Emergency Relief appropriations are not included, as such are to be financed from additional revenue, sources of which are now under consideration by the General Assembly.

The submission of the budget has been delayed by reason of extraordinary and perplexing financial difficulties, the solution of which is the joint concern of the General Assembly and the Governor. The budget is submitted in summarized form, any further details you may desire will be available to you on your request. Appropriation bills will be prepared and submitted to you for your consideration as soon as possible containing, of course, the detailed items making up the aggregate as shown in the summaries submitted herewith.¹

Indiana

Indiana officials are required to be slightly more efficient than are their Illinois colleagues in forecasting the needs of the State agencies. Their estimating must begin at an early date. The statutes call for submission by the State departments of their budget estimates for the ensuing biennium to the State Examiner on or before August 15. The State Examiner has a considerable period in which to rearrange the statistics submitted to him, since he is not required to prepare the statement of the accomplishments of the elapsed fiscal periods and other pertinent fiscal data of the state before December 1. The two series of data, one representing financial statistics and the other expenditure estimates, are submitted to the State Budget Committee, which is empowered to review them, hold hearings, and prepare the budget report and budget bill. The Governor must receive these before January 1. He has a one month period in which to prepare his revisions to be submitted, together with the budget report and budget bill given to him by the State Budget Committee, to the General Assembly within twenty days after it convenes in the first half of January. The requirement that expenditure estimates be submitted by the departments as early as August 15 appears to be a needless one, there being no explanation whatsoever of the delay between that period and December 1. The State Examiner fulfills no function other than the arrangement of the estimates sub-

¹ *Proposed State Budget for 1935-1937, Submitted to the Members of the 59th General Assembly by Governor Henry Horner, (Springfield, 1935) p. 4.*

mitted to him, and his activities for this purpose require three and one-half months. The changes and revisions are made under the auspices of the State Budget Committee and the Governor, neither of whom begins his revising operations before December 1. Revisions are completed by the Committee in December, and any changes that the Governor may make can be carried out in January. An undermanning of the State Examiner's office probably causes this lag. We notice in the case of Indiana that again a slight delay is permitted for the submission of the budget.

The interposition of the State Examiner between the spending agencies and the Budget Committee does not appear to be warranted. It will be recalled that the Budget Committee includes legislators among its members. This further strengthens the belief that the necessary coöperation in the actual preparation rather than in the mere revising should be practiced to the utmost degree. At least the statutory requirements give no encouragement to any such coöperation.

Iowa

In Iowa a period considerably shorter than that found in other states is required for the preparing of the budget estimates. However, the date noted in the statutes for submission of the estimates by the spending agencies to the budget authority of the State gives no indication of the time at which these agencies begin the preparation of their estimates. Without the proper direction and authority that might be secured through the submission of blanks at a specified time, the agencies might begin their studies and base their estimates long in advance of the time when they were in a position to know the pertinent facts regarding their requirements during the coming biennium. In Iowa, October 1 is the date on which the estimates must be submitted to the Comptroller. The latter has one month in which to prepare the revenue estimates, compile other necessary data, and submit his budget to the Governor. Sometime during the month of November, the Governor is to hold public hearings and is to prepare his budget. The Governor is not required to submit his budget to the General Assembly before February 15. He is, therefore, given two and a half months following the hearings in which to make his own recommendations.

In view of the fact that the State has apparently been successful in operating with a period of legislative debates restricted to the time intervening between February 15 and the beginning of the fiscal year, there is no reason why the entire process cannot be shifted to the submission date. Iowa also clings to the assumption that a dual review and revision is necessary by the Comptroller and the Governor. It appears entirely feasible for Iowa to omit at least two months of the period that the Governor himself has for revising his budget following submission. Hearings, if necessary, may be held sometime during the time now allotted to the Comptroller. On this basis it appears that the departments

may submit their estimates by December 1, and that the Governor and Comptroller in preparing their versions of the budget will have at their disposal a record of the accomplishments of the first half of the second fiscal year in the current biennium.

Michigan

Michigan is another one of the states in which an unnecessarily early period for the compilation of estimates is provided. The forms that are submitted on July 1 do not have to be returned to the Budget Director before December 1. It may be noted elsewhere that some state agencies are allowed a one-month period to fill out the blanks. Michigan does not place too great a reliance on departmental estimates of their own requirements as a starting point of executive revisions.

While the departmental estimates are in the course of preparation the Director is engaged in compiling a set for himself. Following the submission of their estimated needs by the agencies on December 1, the Director is empowered to examine and revise these and reconcile them with his own. The usual provisions for public hearings, to which the Governor and Governor-elect are invited, are found. The Governor is empowered to make any revisions that he sees fit. There is no indication of a formal presentation of the budget to him by his Budget Director. The submission to the legislature must take place ten days after its opening in the first days of January. The original demands of the departments are not unknown to the legislature, since the budget submitted to the legislature includes these as well as the amounts revised by the Budget Director.

Minnesota

The statutory requirements in Minnesota appear to be very vague, and a limitation of the procedural statutes, in stating the final date of submission of the budget by the Commissioner in charge, allows for an efficient system if so desired. The Commissioner is required to prepare a budget for all the income and outlay of the State, and to submit it not later than the first day of December of the year preceding the convening of the legislature. There is apparently no indication of the steps that must be taken by the spending agencies or the various procedures to be adhered to prior to that date. However, the powers and duties of the Commissioner of the Budget and the Commission are specifically outlined.²

The Governor, who again appears to be disregarded in the activities that take place before the submission of the tentative budget prior to December 1, has the period between that date and his inauguration to make his contribution. The legislature does not meet until after the first week in January. This allows the Governor at least six weeks for his budgetary duties.

² Minn. Laws (1925), c. 426, art. III, §9.

Nebraska

Nebraska outlines its preparation stage procedures in great detail. Requirements begin with the submission of the estimate blanks by the Commissioner of Taxation and Budget to the spending agencies on August 15 of the year preceding the one in which the budget biennium starts. The agencies have one month in which to fill in the necessary data requested from them. Following the return of the estimates to the Tax Commissioner on September 15, a period of two months is available for the Commissioner to consolidate the estimates received by him and to add his own recommendations. The Governor has one month in which he must hold his public hearings. Following the expiration of this period on December 15, the Governor has another month in which to complete his recommendations since the statute calls for submission of the budget by him to the legislature on or before the fifteenth day of the session.

Nebraska is one of the states with an elaborate budgetary arrangement for an incoming Governor. This is necessary because of the proximity of the submission period to the usual inauguration date. The statutes provide that:

in case of a change of administration, the outgoing Governor shall deliver the budget to the legislature previous to the close of his term and the incoming Governor shall have 15 days in which to review the budget as prepared and delivered by his predecessor, and may send to the legislature a supplementary budget message making suggestions of any changes which he deems wise, and the Constitutional requirements for a 3/5ths vote to increase the items and recommendations contained in the budget shall relate to the supplementary message of the Governor.*

West Virginia

There are two more biennial budget states that may be included in an arbitrary classification of fiscally important or representative jurisdictions grouped in the July 1st-June 30th category. West Virginia has exceptionally elaborate and time-consuming preparatory practices. At the close of the first fiscal year in a biennium (on July 1), the Board of Public Works is empowered to request all spending agencies to submit requests for appropriations for the next biennium. This is unnecessarily early. It will be recalled that the spending agencies must certainly have several weeks, if not longer, in which to prepare their estimates in order to be able to submit them by July 1. A full two years elapses before the beginning of the second half of the ensuing biennium and there can be no real attempt to work with probable needs. Until recently the spending agencies submitted

* Neb. Comp. Stat. (1929), §§81-302.

estimates that were neither useful nor accurate.⁴ Following the submission of the data, which are also said to include estimates of revenues by months, the Board may provide for public hearings. There is an exceptionally lengthy period available to the Board for its deliberations and studies, since it is not required to submit its budget to the legislature before ten days after the opening of the legislature on the second Wednesday in January. It is obvious that a radical reform in West Virginia's practices must be recommended.

Wisconsin

In the case of Wisconsin a more reasonable time arrangement is present. The spending agencies have until November 1 (four months closer to the budget period than in West Virginia) to submit their requests to the Director of the Budget. Although the fiction of a dual revision by the Director of the Budget and his superior, the Governor, is maintained, not enough time is granted to each to create an objectionable situation. Only twenty days is available for the Director to submit the data to the Governor-elect, who holds hearings following that time. The voting for Governor is timed so that adoption of each budget coincides with the inauguration of a new executive. The Governor-elect is not requested to submit his budget message and the other necessary reports and bills to the legislature before February 1. The system enables the legislature to be acquainted not only with the recommendations of the outgoing Governor, but also with those of the new Governor as well. It is assumed that the Director of the Budget is an appointee of the outgoing Governor, since specific provision is made for his retention. The statutes indicate that he is not removable during legislative sessions or two months prior thereto, except for cause. In the budget message and report submitted by the new Governor his recommendations are noted separately from those of the estimates approved by the Director of the Bureau of the Budget.

It is evident that in the states that have been surveyed all the advantages that can be derived from better and more timely preparation practices refer only to the first year of the biennium. It would be absurd to suggest changes along British or even Dutch

⁴ Prior to the beginning of the present biennium, July 1, 1935, budget requests were made up by all departments and institutions and presented to the Board of Public Works for approval to be presented to the Legislature by the Governor. Forms were not prescribed for that purpose. All the detail presented in connection with the appropriation requested was only such information as required from time to time by the Board of Public Works and by the legislative committees, most appropriations being considered on the basis of total expenditures for the previous spending year without regard to population of institutions or duties of departments. Under the present appropriation act all spending units are required to present budget requests in detail on forms prescribed by the Director of the Budget showing a comparison of cost with previous years, and submit such requests to the Director of the Budget before being presented to the Board of Public Works. *West Virginia Budget System, op. cit.*, pp. 8-9.

lines if the forecasting must cover twenty-four months or that part of twenty-four months that is not to be financed through special session legislation or through deficiency appropriations.

July 1st-June 30th Budget Period (Annual)

There are a handful of states in the July 1-June 30 group which have annual budget systems. For these states, including New York, revisions in the interest of greater efficiency in planning and forecasting would perhaps be of some value.

New Jersey

In New Jersey the standard estimate forms, which have been submitted to the spending agencies at some time previously, must be returned to the State Budget Department before October 15 of each year. At the same time the Comptroller is required to submit to the budget officials his statements regarding revenues, Treasury funds, special funds, etc. The date is eight and a half months prior to the beginning of the period under consideration. This means that at best the results of only approximately one-quarter of the current period are known. Following October 15 the Governor in conjunction with his State Budget Commissioner is expected to examine the requests, hold hearings, and prepare his own recommendations. The State does not maintain the fiction of divergent policies that may exist between the Governor and his own appointee as chief budget authority of the State. The allocation of separate time to the Governor and to his own staff officials for their independent revisions is a common way some of the executive budget states have of wasting time. The period between October 15 and the second Tuesday in January, the date on which the Governor must submit his completed budget to the legislature, appears to be more than ample for the revisionary duties that must be carried out in that period.

A study made in 1929 by the Institute of Public Administration has made several recommendations with respect to the preparatory practices in the State. In the revisions that have taken place in 1931 and 1933, a few of the recommendations have been carried out. The two budget assistants, whom the Governor previously had appointed to represent the major political parties, have, as has been indicated, been dropped so that no political strife need be expected before the budget is submitted. The survey report recommended further that the tentative revenue estimates should be prepared about September 1 and revised about December 1, reducing the final revenue estimating to a period within seven months of the opening of the fiscal year.⁵ This does not appear to have been a startling recommendation although it does involve some shortening of the preparation period.

The experts struck also at the practice of holding hearings.

⁵ Institute of Public Administration, *New Jersey Survey, op. cit.*, p. 53.

The survey maintained that the holding of budget hearings was overdone and that the three that had been held, namely by the departments for their subordinate agencies, by the Governor for the departments, and then by the Appropriation Committees of the legislature for the public, represented a great loss of time. In view of the fact that New Jersey, as a State having an annual budget, meets every other year with an incoming Governor preparing the budget, the need for special provisions applying to the new Governor is very great. The experts recommended that the budget should represent, in post-election years, the work of the incoming, and not the policies of the outgoing, Executive. Towards this end a practice, not unlike that found in many other states, namely postponement of the submission date until February 1, was recommended. This would give the new Governor three extra weeks for preparation.

For a jurisdiction as important as New Jersey the adoption of a vastly improved system stressing better time relationships would permit the realization of opportunities for coordination with actions of the federal government. It is hoped that the needed changes will be made when the equally needed revision of the State's tax system takes place. Two other states, besides New York, emulate New Jersey in the annual status of their budgets and in the dates of their fiscal periods.

Rhode Island

In Rhode Island, under the 1935 law, the submission by the spending agencies of their requirements to the State Budget Director takes place on or before October 1.⁶ Under the previous law the State Commissioner of Finance acted independently of the Governor and submitted a report based on his revisions and conclusions to the General Assembly and at the same time to the Governor, namely the tenth day of January. The Commissioner of Finance previously had the power to revise and even to make his own estimates in preparing the budget. The Report of the Commissioner of Finance also went to the legislature independently of the Governor's budget.⁷ This practice has also been eliminated.

South Carolina

In South Carolina the various State agencies are required on November 1 to submit estimates of their requirements for the next fiscal year to the Governor, who is chief budget officer of the State. The provisions specifically state that the legislative members of the State Budget Commission shall join with the Governor at the hearings. The Commission is empowered to prepare the budget, which is submitted to the legislature five days after the opening of its session on the second Tuesday in January.

⁶ R. I. Pub. Laws (1935), c. 2188, § 4.

⁷ Letter from A. E. Godfrey, Assistant State Commissioner of Finance, Providence, under date of May 8, 1934.

While there are no restrictions on the changes that may be made in the expenditure estimates as submitted by the spending agencies, a more searching analysis of the State's practices reveals that the Governor and his Commission are not important.

The hearings, which are dominated by the legislative committee members on the Commission, are apparently only a duplication of the hearings that the legislative committees themselves hold not very long afterwards. More significant is the fact that a separate set of estimates, which neither the Governor nor the Budget Commission can revise, are also submitted to the General Assembly.⁸

Before some of the general conclusions regarding the practices of these states and those adhering to other time periods are studied, a brief descriptive analysis of the other commonwealths in the July 1st-June 30th group will be presented. In all of the states to be discussed, the prevalence of biennial budget periods reduces much of the value of any reform that might be effected. The group includes Arkansas, Colorado, Delaware, Kansas, Kentucky, Louisiana, Maine, New Hampshire, North Carolina, North Dakota, South Dakota, Tennessee, Utah, Vermont, and Virginia. Arizona, Montana, Nevada, and New Mexico, whose practices are not discussed, also fall into this group.

Arkansas

While not fiscally important, Arkansas is worthy of attention because of the full measure of reform that it needs in most budgetary matters. In this State the extraordinary character of the preparing agency has already been subjected to comment. The time requirements outlined in the outmoded statutes bear no reference to specific dates but rather to legislative deliberations. There is a requirement that the State Auditor receive estimates of expenditures to be filed with him by the spending agencies before the opening of the legislative session. The Auditor compiles these expenditure estimates along with the revenue forecasts prepared by him and must submit them to the legislative committees immediately following their appointments. These appointments, according to law, must be made within five days after the opening of the session. The convening takes place in the second week in January. Since their functions are primarily preparatory, the requirements that they prepare and introduce the necessary appropriation bills within 30 days after their appointment may be cited as a feature of the State's preparatory practice. It is interesting to note that whatever the defects of

⁸ On or before the first day of December, the Comptroller General is required to furnish the Chief Executive an estimate of the financial needs of the State, with full and detailed explanation of all increases or decreases. The law prescribes that these estimates shall be included in the budget without revisions by the Governor, but with his recommendations thereon. Presumably, the legislature desires the judgment of the State's chief accounting officer as a check against the amounts requested. Coleman, *op. cit.*, p. 51.

the system in Arkansas may be, they do not entail the abnormally lengthy preparation period encountered in other jurisdictions.

The recommendations of the Institute of Public Administration experts dealt with the preparatory practices.⁹ They suggested complete revision of the preparatory procedure, including the setting up of new agencies to carry out budgetary functions. The proposal is interesting since it recommends the preparation of tentative revenue estimates by the Bureau of Budgeting on or before September 1. These are to be used by the Governor in announcing to the spending agencies the nature of his financial policy, and are to give some indication of his attitude towards economy, retrenchment, expansion, etc. which the agencies are to take into account in preparing their estimates. On or before November 1 these are to be submitted to the new Bureau of Budgeting recommended for the State. The revenue estimates are then to be revised in the light of more recent developments and are to be completed by December 15. Section 6 of the proposed code calls for a review and revision of the estimates by the Governor with the assistance of his Commissioner of Finance, and the completion by him of a budget for submission to the legislature before the first week of its session. An excellent recommendation is involved in the suggestion for preparation of tentative revenue estimates and the introduction of executive participation in the early stages of revenue estimate preparation. Unfortunately the existence of revenue assignments, continuing appropriations, etc. allows only a small scope for the exercise of planning judgment. The survey also indicated the widespread existence in Arkansas of supplementary and deficiency appropriations and of emergency proclamations, indicating a further decreased comprehensiveness in preparation practices.

Colorado

In Colorado the date for submission of departmental requirements to the State Budget and Efficiency Commissioner is fixed as October 1. A revision is made by the Executive Council, with the assistance of the Budget and Efficiency Commissioner. Since the statutes call for the submission of the budget as prepared by the Council and the Commissioner, it is assumed that the views of the Governor are already expressed in the deliberations of the Council. The Governor is required to submit the budget, which is prepared by him for the Council, to the General Assembly not later than the tenth day of the legislative session, which begins early in January.

Delaware

In Delaware the submission of departmental requirements to the Board of Budget Directors is required by September 15.¹⁰ At

⁹ Institute of Public Administration, *Arkansas Survey*, *op. cit.*, pp. 103-104.

¹⁰ Del. Laws (1931), c. 81, §§ 2-10.

the same time the Auditor is required to submit to the same agency information with respect to past fiscal accomplishments. The Board has until September 15 to request further information. Before November 15 the Board is also required to hold its hearings. The Governor-elect is authorized to take part in the public hearings and to make recommendations which come to the attention of the General Assembly. The Governor receives the budget prepared by December 15 by the Board. He has two weeks prior to the legislative session in which to make his own revisions. He is then required to submit his completed budget five days after the organization of both Houses. The short period of time allotted to the Governor is probably in keeping with the nature of the revisions that he may desire to make independently of those of the Board of Budget Directors.

Kansas

The date for the submission of the requirements of the spending agencies in Kansas is the common one of October 1. At the same time other pertinent budgetary information must be submitted. The Governor and the State Budget Director begin to examine and complete the estimates submitted to them, having until November 15 to complete this phase of procedure.¹¹ The statutes call for notification to the departments of any revisions that the Executive and his State Budget Director wish to make. This undoubtedly takes place in other states but specific statutory recognition is given to the practice only in Kansas. If the departmental estimates have been revised the departments may request hearings to state their case. Such requests for hearings must take place prior to the 25th of November. It is assumed that between that date and the submission of the budget to the legislature not later than the second Tuesday in January, the revision by the Governor and his budgetary aids will be completed.

Kentucky

The recently adopted budget law of Kentucky is noteworthy with respect to the preparatory practices that it embodies.¹² It is not before October 15 that the usual standard estimate forms are submitted to the agencies. It will be recalled that we have noted a number of states in which such forms have been submitted early in order to enable their return to the budget-making authority during July or August. In this State returns must be submitted before November 15. At that time the State's budget officer prepares, with the approval of the Board of Finance, the budget reports which are then submitted

¹¹ Kans. Laws (1925), c. 260, §§ 2-8.

¹² A recently completed survey of the State's budgetary system contains a detailed analysis of preparation as well as other procedures. See *Public Administration Service Handbook of Financial Administration, Commonwealth of Kentucky*, (Frankfort, 1937), pp. 19-39.

to the Governor. Nevertheless, there is an opportunity for the Governor to examine the reports, to hold hearings, and to make his revisions. A new Governor-elect may participate in the hearings and may request such information as he requires. The Governor ostensibly makes his revisions and returns the budget to the State budget officer who must print it and transmit it to the House of Representatives by the third Monday after the convening of the General Assembly. This takes place at the usual January date.

Both with respect to the continuous preparation process and to the elimination of time lags, the system is noteworthy. It would be desirable to have a closer and earlier coordination of the Board of Finance's activities with those of the spending units. Also a shifting of the entire submission and the subsequent legislative process to a date nearer the beginning of the fiscal period might be recommended.

Louisiana

In Louisiana a 1916 act provides for the distribution of forms by January 1, their return by February 1, and the submission by April, of the completed recommendations of the State Tax Commission, together with the departmental estimates, the recommendations of the minority of the Commission, and of the Governor and the Governor-elect.¹³ It should be noted that Louisiana is one of the states that hold regular sessions later than January. They are scheduled to begin in the second week in May. This makes it possible for the entire process to be shifted to the beginning of the fiscal period. The agencies preparing the various estimates have at their disposal the results of the first half of the second year in the current biennium. Under a 1914 act, which apparently has not been repealed, the preparation is called for as late as thirty days prior to each regular session.¹⁴ This law grants what is probably the shortest preparation period found in any state law. It is evident that the late date for the legislative session in relation to the opening of the fiscal period would permit an efficient arrangement. There has of late been too much irregularity in Louisiana's political history to permit any conclusions to be drawn regarding the efficient operation of its procedures.

Maine

In Maine the budgetary law embodies the recommendations of an organization, namely, the Institute of Public Administration, having on its staff the leading budgetary authorities of the nation. It provides for the tentative preparation of revenue estimates before the anticipation of the expenditure requirements,

¹³ La. Acts (1916), No. 140, § 8; La. Gen. Stat. Ann. (Dart, 1932), § 8320.

¹⁴ La. Acts (1914), No. 246, §§ 1-3; La. Gen. Stat. Ann. (Dart, 1932), §§ 9349-9351.

and the subsequent revision of the former at a date close to their submission to the legislature. The law calls for submission on or before November 1 by all spending agencies of their specific requirements. The tentative revenue estimates are prepared by the budget officer before October 1 and are to be revised by this officer by January 1 for inclusion in the budget. The dual preparation step is also eliminated because it is provided that the State budget officer, at the direction of the Governor, shall prepare the budget and transmit it to the legislature not later than the fourth week of the regular session. There is no unnecessary period for the Governor to review the work of his appointee who at all times acts under his direction and with his cooperation. The Institute of Public Administration experts also did not favor the introduction of the budget immediately following the opening of the session. Their plan was to give the legislators an opportunity to operate closer to the fiscal period and to develop their own fiscal ideas in terms of the executive budget program. The experts were also concerned with the problem of a new Governor. Their comments were as follows:

A more important matter to be provided for by legislation is the requirement that a new governor upon assuming office shall be responsible for the budget that is presented to the legislature. The outgoing governor should not be allowed to prepare the budget for the incoming administration. After a new governor is elected in September, he should acquaint himself with the state's finances and determine the fiscal policies which he wishes to outline in the budget. By arranging for the submission of the budget to the legislature about February 1, instead of early in January, as now required by law, a new governor should have plenty of time to get his budget ready.¹⁵

In general the methods outlined for the State are noteworthy and might be the basis for recommended changes in other jurisdictions having a similar opening date for their fiscal year.

New Hampshire

In New Hampshire the submission by the spending agencies of their requirements to the Comptroller takes place before October 1. The Comptroller has one month in which to review, summarize, and draw up a tentative budget on the basis of the estimates submitted to him. After November 1 the Governor holds hearings (which the Governor-elect may attend) and may then make any changes in the budget that he sees fit. His tentative budget does not have to be submitted to the legislature until February 15. This not only gives him considerable time but it also eliminates the possibility of a situation whereby responsibility is assumed by a new Governor unacquainted with State affairs. It moves the deliberations closer than usual to the

¹⁵ Institute of Public Administration, *Maine Survey*, op. cit., p. 54.

opening of the fiscal period. Under the New Hampshire statute the legislative views are made known early in the preparation stage and the Governor further has the opportunity to know the attitude of the Chairmen of the Appropriation Committees. At his hearings, held after November 1, in addition to the Governor-elect, the Chairmen of the Appropriation and Finance Committees of the House and Senate are expected to attend. This is comparable to the practices found in other jurisdictions in which advance and tentative budgets are submitted to the legislative leaders who will later be concerned with the adoption of the recommended measures.

North Carolina

In North Carolina estimates are submitted to the Budget Advisory Commission on September 1.¹⁶ At that time it is possible that no information later than that for the close of the first fiscal year of the biennium is available. Undoubtedly a postponement for two months or more would assist towards a realization of the factors operative in the current year. The Auditor must also submit the necessary information at that date.

North Dakota

The statutory requirements in North Dakota call for a distribution of forms to the spending agencies not later than August 1, and their return accompanied by explanatory data to the Auditor's office by October 1. The temporary Budget Board must meet and organize on the second Tuesday of October. It will have received by that time the departmental estimates which have been compiled after their submission to the State Auditor. The Board holds public hearings and is authorized to carry on independent investigations of its own. On the basis of the information it gathers, the Board is required to prepare its own estimates and to submit its recommendations to the legislature not later than the tenth day of the session, which begins in the second week of January. It should be noted that the Budget Board, which includes the important legislative members, must accompany its estimates with all the statements, estimates, and requests submitted to it.

Oklahoma

In Oklahoma the departmental requirements must be submitted to the budget officer of the State by July 1. For some reason the entire procedure lapses into a dormant stage until November, when the Governor is required to provide for public hearings. On the first of December the statutes call for the completion of a survey, by the Governor and his assistants, of all the spending agencies. Statutes indicate that "he must have completed a careful survey of all the departments, bureaus, etc. . . . through

¹⁶ N. C. Code Ann. (Michie, 1931), § 7486, arts. U-V.

which he shall be in possession of working knowledge upon which to base his recommendation to the legislature."¹⁷ It is assumed that he will have absorbed such knowledge by the time he completes his budget and submits it to the legislature within five days after its meeting in the second week in January.

The appraisal by the Brookings Institution experts of the present preparatory practice includes the following comments:

. . . it requires the Governor to submit the budget document and tentative appropriation bills to the fund-raising and fund-granting body within five days after the beginning of each regular session of the legislature. The new Governor does not take office until after submission of the budget. This means that he, in addition to serving about five and one-half months of his term under appropriations made by the preceding legislature, must also administer appropriations recommended by his predecessor for the first two full fiscal years of his administration; unless as a matter of courtesy, the outgoing Governor agrees to the appointment of an unofficial budget committee by the incoming Governor to review the estimates submitted, hold hearings, and prepare the budget for submission to the legislature by the outgoing Governor as his recommendations or proposals for the ensuing biennial period. Otherwise, the budget law now places each Governor in the position of operating under the plans of his predecessor for two and one-half years of his term. This can be remedied by legislation.¹⁸

The report notes that Alabama, New Hampshire, and Iowa (States for which the Institution has prepared surveys) have successfully allowed for a recognition of the problems raised by newly-elected Governors.

South Dakota

In South Dakota the spending agencies make their requirements known to the Secretary of Finance on October 15.¹⁹ After the submission of the departmental estimates the Governor and the Secretary of Finance hold hearings. The latter on or before the fifteenth of November must prepare a budget report showing detailed estimates and data with respect to the past financial accomplishments and future needs of the State. The Governor then prepares his budget from the detailed information that has been prepared by November 15 by the Secretary of Finance. This is submitted within five days after the beginning of each regular session during the second week in January. In case of a change in administration the outgoing Governor delivers

¹⁷ Brookings Institution, *Oklahoma Survey*, *op. cit.*, p. 238.

¹⁸ *Ibid.*

¹⁹ *Budget System of South Dakota*, *op. cit.*, pp. 1-2.

the budget to the legislature. The incoming Governor has ten days in which to review the budget of his predecessor. The new Executive may then send a supplementary budget to the legislature, if he so desires.

Tennessee

In Tennessee the system allows for efficient preparation methods, providing the spirit and letter of the statutes are followed. The system calls for a coincidence of budget adoption with the inauguration of a new Governor. It was necessary to move the entire preparatory procedure close to the budget period, by virtue of the fact that it must be related to the incoming Governor. The distribution of the blank forms to the departments takes place before October 15, and they are returnable by November 15. The Comptroller, who acts as the Governor's budget officer, prepares other necessary data. His office has a Division of Accounts and Budgets for this purpose. The Budget Commission (in reality the Commissioner of Finance and Taxation) reviews the estimates and has the power to make any changes it sees fit. There are provisions for public hearings which various department heads may attend and which are open to the Governor-elect and to members of the Legislature.

It is interesting to note that the outgoing Governor has little or no rôle to play in regard to the preparation of the budget. Within three days after his inauguration the Commission must submit the departmental estimates, together with its own recommendations to the new Governor for his revision. The Governor himself is given the right to revise these in accordance with his beliefs. The system implies that not later than four weeks after he has taken office, the Governor must submit his budget to the legislature. This brings the submission date into February. It is unfortunate that the change in administration so occurs that the executive can superimpose his ideas only upon the estimates already prepared without any relationship to his own fiscal ideas or program. The obvious solution would involve a postponement of the submission date.

Professor Snavelly's comments on this question are of interest. He notes:

It may be said that the outgoing executive should not prepare the budget, since the newly elected Governor may have different views and policies. While the new Governor should examine the budget of the previous Governor and may recommend changes, it should be the obligation of the old Governor to prepare it in full detail. . . . If the new Governor recommends drastic changes. . . , he should give convincing reasons to the legislature as to the necessity for the changes. He will have an opportunity to make his own budget before the close of his term in office.²⁰

²⁰ Snavelly, *op. cit.*, p. 7.

This discussion is based on the belief that the best fiscal interests are served by having each Governor prepare a budget to be guided through the legislature and to be executed by his successor. It does not seem necessary to strive for true executive budget leadership under the proposed arrangement.

Utah

In Utah there are no specific dates with respect to the preparatory stages. Prior to the meeting of the legislature each spending agency must make known to the Director of the Budget its estimated expenditure requirements. Hearings are held by the Director, after which he may revise estimates. Not later than the first Monday in January the Governor receives the budget prepared by the Director. He may further revise it. The Legislature, which meets in the second week in January, receives the budget from the Governor within twenty days after it convenes.

Vermont

The Vermont statutes provide that departmental heads submit their requirements to the Commissioner of Finance by October 1.²¹ The Commissioner is expected to have compiled these into statements and to have submitted them to the Governor-elect by November 15. The Governor, who is empowered to make investigations and receive information from any source, then makes his own revisions. He must, however, make known to the Legislature his reasons for such revisions when he submits his budget message to them not later than the third day of the regular Assembly meeting in the second week in January.

Virginia

Finally, Virginia must be mentioned among the states that adhere to a budget period beginning July 1. The forms are distributed to the spending agencies as early as July and must be returned by September 15. During the preparation of the estimates the Governor, accompanied by the Director of the Division of the Budget and by his Budget Advisory Board, visits the various State institutions in order to determine their budgetary requirements. This is one of the few remaining instances of the well-known junkets that formerly accompanied legislative budget practices. The Governor then holds hearings to which the Governor-elect is invited. Sometime during November or December the Governor's recommendations, together with the requests of the departments and other information, are printed. There is some indication that this is made available prior to its formal submis-

²¹ Vt. Pub. Laws (1933), §§ 552-559.

sion to the General Assembly within five days after its opening during the second week in January.²²

²² Four western states which adhere to the July 1st-June 30th dates for their biennial budget periods, namely Arizona, Montana, Nevada and New Mexico, have not been mentioned. The procedures, which are not noteworthy, are outlined as follows:

In Arizona the distribution of blanks to the spending agencies by the State budget authority begins prior to July 1. The agencies have until October to prepare an analysis of their requirements. At the same time the State Auditor must prepare the necessary data with respect to revenues, funds, etc. The Governor has until the legislative session in January to complete his budget.

In Montana estimates are submitted to the State Board of Examiner prior to November 15. A budget is prepared by the Board and is submitted ten days after the convening of the General Assembly during the first week in January.

Nevada also prescribes for the submission of departmental estimates to the Governor, for holding hearings on all estimates, and for the submission by him of the budget to the legislature within 20 days after its convening. The usual methods and time facilities are present.

In New Mexico the estimates are submitted to the Governor by the spending agencies before September 15. The Governor has the period between then and 15 days after the opening of the regular legislative session early in January to prepare the budget that he must submit.

CHAPTER XXVIII^X

Preparation Procedures in State Governments (Continued)

June 1st and April 1st Budget Opening Group

There are only thirteen states that have fiscal years beginning on dates other than July 1. Among these states are a few that have methods comparable with the best national practices and their segregation aids in pointing out possible reform trends for the predominant July 1 group. Foremost among these are those in which the fiscal period coincides with the calendar year. They include Georgia, Idaho, Missouri, Mississippi, Ohio, and Oregon.

Before the practices of the last-mentioned jurisdictions are analyzed, it may be well to view two states that are in only a slightly different situation from the July 1st-June 30th group. In Pennsylvania and Wyoming the dates are such as to permit the usual procedures to continue without causing any unduly early preparation.

Pennsylvania

Pennsylvania alone among all the states has adopted the June 1st-May 31st fiscal year. This is not an objectionable practice. To copy it, however, would be of only slight value to the other states which follow the usual pattern of concentrating the final revision of estimates, submission of the budget, and legislative adoption around the end of the calendar year. Statutes call for submission of departmental requirements to the Budget Secretary on November 1. The forms on which these estimates are made known have been submitted to the agency on August 15, only two and one-half months short of a full year before the period begins. The Governor receives on January first the results of the work that the Budget Secretary has done since the return of the estimate blank forms to him. The Governor is allowed one month in which to make his own revisions. The procedures call for the submission of the budget by him to the legislature within four weeks after its convening on the first of January. A Legislative Committee report on the State administration has emphasized the difficulties with respect to preparation. It notes that the budget office has been unduly burdened. For example, it specified that in the preparation of the 1933-35 biennial budget, the following steps should be followed.¹

(1) Submission of departmental estimates to the Budget Bureau in the period between August 15, 1932 and October 1, 1932.

(2) A study of these departmental budgets by the Budget Bureau.

(3) Conferences between Budget Bureau and departments.

¹ Townsend, *op. cit.*, p. 44.

(4) Final preparation of budget by Budget Bureau.

(5) Submission by Governor to General Assembly.

This unnecessary length of time arises chiefly out of insufficient staffs and there is some benefit to be gained from a revision of fiscal dates. The work can and should be further concentrated.

Wyoming

Wyoming's fiscal period begins on April 1. It is perhaps an even better solution of the problem than that offered by the June 1 date of Pennsylvania. In most of the states it will be noted elsewhere that legislative discussions of the budget are concluded sometime during March. This procedure furthermore is well-timed, compared with the practices of some of the other Western and South-western state units. The spending agencies submit their estimates by November 1 and the Auditor's estimates of revenue are received by December 1. It is at the latter date that the Governor is expected to have completed a careful survey of all departments and to possess the necessary working knowledge on which to base his recommendations. The submission of the budget takes place within five days after the opening of the session early in January. In its departure from the usual state practice Wyoming appears to have turned in the right direction. Unless the states in the July 1st-June 30 group desire to make the effort to get the best possible arrangements involving postponed submission, Wyoming's timing is the best alternative. There would be a three months' advantage. It would not be necessary to change preparation dates, or in most cases legislative sessions or submission, debate, and vote periods. There should be enough time between the usual submission dates and April 1 for the budget program to be adequately discussed and voted. New York could well have a fiscal year beginning on April 1st. The calendar year group is next discussed.

Calendar Year Budget Period Group

Georgia

Georgia has no statutory requirement regarding the dates of submission of budget estimates by the spending agencies to the Director of the Budget. There is likewise no specific requirement with respect to the dates for the public hearings that are mentioned in the statutes. These are held by the Governor, who may also revise estimates as he sees fit. The Governor-elect has the right to confer with him on the budget, and to examine all estimates and requests. There is no indication, however, that the budget is not officially the plan of the outgoing Governor. While Georgia belongs to the solid party belt there has been recent antagonism between new and old Governors and a more desirable plan for changing Governors might be suggested.

There is a requirement that the budget be submitted to the General Assembly within ten days after its opening session on the second Monday in January. The Georgia legislature meets

at this time for the selection of its officers and for the introduction of bills. The appropriation bills, although introduced in the January session, are passed at the time of the second regular meeting of the legislature in the summer. Georgia, therefore, ranks among the worst states with respect to the needless time lags which its preparation period involves. The voting of the appropriation bills during the summer for the period beginning the following January would in itself constitute an objectionable practice. The bills, however, are prepared and submitted long before and the hearings and other actions affecting the revision may have already taken place seven or eight months previously, by the time the legislative discussions begin. There is an easy avenue for reform open for the State if it chooses to adopt a system for temporarily carrying the finances for the short period between the beginning of the fiscal year and the passage of the appropriation bill. The best way for Georgia to possess one of the most efficient time relationships would be to start its fiscal year on July 1.

Idaho

In Idaho the estimate forms distributed to the spending agencies are returnable by September 15. After that date further inquiry and revision by the Director is required. On or before December 1 he must prepare and submit an estimate of revenues to the Governor and Governor-elect. This information is the basis for the revisions that the Governor makes following public hearings to which the Governor-elect is invited. Not later than ten days after the organization of the legislature on the first Monday of January the Governor must submit his budget. The practice in Idaho, unlike that of Georgia, calls for preparation of the budget for the biennium beginning a few days before the submission of the budget. The method of bridging over this intervening period is indicated in a later chapter. It may, however, be stated at this point that it is adequate, and gives to Idaho the laudable distinction of being one of the few states operating with a method comparable in its potential efficiency to that of the admirable British-type methods. The legislature, as well as the Commission preparing the budget, has at its disposal information covering almost the entire past biennium. The fact that this State, as well as others, has been able to function efficiently, is sufficient indication of the practicability of the post-period voting and the validity of recommending its adoption elsewhere in this country.

Missouri

Missouri is another State that functions with a submission delayed till after the beginning of the budget period. The practices are in many respects similar to those found in Idaho. The distribution of estimate forms takes place before October 1. These

are returnable by November 1, six weeks later than the date for the same action in Idaho. The Budget Division of the State Tax Commission, under the supervision of its Director, carries out the revision and checking of the expenditure estimates and their coördination with the revenue estimates which they prepare. The Governor may hold public hearings but they are not mandatory; in recent years they have not always been held. The Governor-elect is permitted to study all budget data, to attend conferences and hearings, and to make suggestions to the Governor which he must incorporate separately in the budget report. The final decision as to revenue and departmental estimates rests with the Governor, and his completed budget must be submitted to the legislature within two weeks after it convenes during the first two days of January.

The State has an adequate provision for its financing during the intervening period when it is normally without appropriations. A study of the Missouri system indicates a number of highly desirable features. It has adopted one of the best solutions raised by the problem of incoming Governors. The outgoing Executive is not removed from the procedure, and contributes the benefit of his experience and knowledge of State affairs. The new Governor becomes acquainted with the budgetary estimates at an early stage and follows them through their development prior to their submission. The viewpoints of the Governor-elect are, furthermore, incorporated into the budget document, and in view of the advisory character of the estimates there is no subordination of his interests. The timing advantages of the Missouri system are self-evident. A duplication of efforts on the part of the Governor's own appointees may be found but it does not consume sufficient time to be an objectionable feature.

Mississippi

In Mississippi each spending agency must submit to the Governor, at least forty days before the convening of the legislature, detailed estimates of its requirements. There is provision for conferences between the Governor and the heads of the spending agencies although there is no mention of public hearings. The Governor is then required to revise the estimates, summarize them, arrange for their printing, and mail the budget to each member of the legislature ten days before the convening date, and to make it public the first day of the session. The fiscal year previously began on October 1. As indicated in the following part, difficulties in bridging the gap between the closing of the budget period and the authorization of new appropriations were encountered.

At present the period begins on January 1. The spending agencies are now provided with the necessary financing due to the fact that the Constitution allows appropriations to run for six months after the beginning of the next legislative session. This is probably the shortest preparation period provided in any state

statute. However, this is actually a misleading statement, because of a delayed lapse of the old appropriations. The convening of the legislature on the Tuesday after the first Monday of the year concentrates the deliberations in the last two months of the fiscal year. The Brookings survey in 1932 recommended a Constitutional amendment providing for a period beginning on July 1.²

There is an opportunity in Mississippi to observe the failure of the Executive to comply with requirements of the law. No useful time relationships could possibly overcome the practices that the Brookings survey revealed. Their comments follows:

After the estimate forms, so arranged as to provide the data specified in the law, have been sent out by the Governor and returned to him by the spending agencies, the law makes it his duty to confer with the various officers responsible for their preparation. No evidence has been found that such conferences, if held, have been productive of results.

More serious still, it does not appear that any Governor has complied with that requirement of the law which makes it his duty . . . to revise said estimates in his discretion. On this point the following statements by certain Governors are illuminating:

"The Statute providing for a Budget permits the Governor to revise the requests . . . and to make specific recommendations where in his judgment, he feels that it is proper, but in submitting this Budget, I have purposely declined to revise the estimates or to make any specific recommendations. I am leaving the whole matter up to the good judgment of the Legislature."—Governor Bilbo, 1930.

"I submit these estimates just as they have been placed before me, without comment or recommendation at this time."—Governor Murphee, 1928.

"I submit these figures and recommendation just as they have been forwarded to this office, with no comment here, due to the limited time to go over the many items enumerated."—Governor Whitfield, 1926.

A few days after the last preceding paragraph was written, Governor Whitfield reverted to the subject in his biennial message of January 5, 1926, and declared:

"As a matter of fact the Executive is nothing more than the transmitting agent for the institutions and the departments, having no power to revise the various estimates in the light of the potentially available revenues." (House Journal, 1926, p. 83.)

This statement is difficult to reconcile with the law, which reads exactly to the contrary. The other statements call for no particular comment; that they are contrary to both the letter and the spirit of the law is obvious.³

² Brookings Institution, *Mississippi Survey, op. cit.*, p. 368.

³ *Ibid.*, p. 358.

Numerous such examples might possibly be discovered in other states. They strengthen the necessity for emphasis of the fact that discussion here is primarily in terms of statutory requirements which may or may not be followed.

Ohio

In Ohio forms are distributed not later than September 15 and are returned by November 1. The Superintendent of the Budget then may make his investigations and such revisions as he is legally permitted. These revised estimates constitute the budget which is submitted to the Governor on January 1, and in return must be resubmitted with his revisions to the General Assembly within four weeks after its organization early in January. The date for submission is somewhat later than that found in the other two states, but nevertheless the procedures described in the subsequent part are adequate with respect to making available funds for the financing of State activities. In view of the fact that the Superintendent of the Budget is appointed by the Governor and may be removed at his pleasure, it is obvious that they are in accord with respect to policy. It does not seem essential, therefore, that the Governor should have any considerable period to make any revisions if the January 1 date is sufficient for the Superintendent to make such changes as he sees fit.

Oregon

Oregon concludes the list of states operating fiscally on a calendar year basis. As in the last-mentioned states the budget is submitted after the biennium to which it refers has begun. The legislature in this State is fully prepared to cope with the sudden demands for the re-enactment of fiscal legislation to be effective immediately, since the system calls for the receipt by the members of the legislature of the tentative budget proposals before the opening of the session. According to the statutes, the requirements of the agencies and other necessary information must be submitted by the spending agencies to the Governor on or before October 1. After tabulation, examination, and addition of the Governor's recommendations and other data, the compiled estimates must be printed. These are apparently available immediately thereafter, although the statute provides that the Governor must transmit copies of his budget to the legislature not later than December 20 and prior to the meeting of the legislature.

The legislature, meeting in the second week in January may, therefore, begin its deliberations of the budget as soon as it convenes. The Governor and the other officials are not given the benefit of knowing the actual accomplishments of the previous period. This should be possible in any case in which the budget is submitted at a date later than the close of the previous fiscal year. Nevertheless, the Oregon system is commendable. It is the solution to be offered for those jurisdictions that have estab-

lished a traditional legislative practice as they are more likely to move the dates of their fiscal years rather than make other necessary changes.

December 1st–November 30th Budget Period: Massachusetts

Massachusetts is the only unit that adheres to an annual fiscal period beginning on December 1. It is also among the few that disavow a long-run prophetic attitude towards the budget. The benefits that accrue to the State because it enjoys an annual legislative session and a fiscal year beginning before the session are considerably lessened by the fact that there is a needless lack of coordination between the time of preparation of its budget and the beginning of the fiscal period. According to the procedures outlined for them, the spending agencies are to provide the Budget Commissioner with all necessary estimates and related data on or before October 15. The Comptroller is required to supply information dealing with past fiscal accomplishments. The submission of the Comptroller's data is not required until December 26, by which time a considerable time period has elapsed since the agencies have been required to make their estimates. It is ridiculous to assume that the agencies themselves are less in need of the data with respect to their fulfilling their task than is the Budget Commission itself. The statutes do not provide for assistance for the Governor although they do include the provision that the Budget Commissioner prepare the estimates for the Chief Executive. The latter may make any revisions that he desires but he must include unaltered much of the information that has been supplied by the Comptroller to the Budget Commission. Submission to the General Court is provided for within three weeks after its meeting on the first Wednesday in January. Regardless of the care and efficiency with which the estimates are prepared and the close proximity of their actual preparation to their submission to and voting by the legislature, the long interval until the beginning of the fiscal year is unfortunate. However, the State is far ahead of any in the July 1st–June 30th group.

Of the five states remaining to be discussed, three have very bad timing procedures. They contrast sharply with all the states, except Georgia, in having been led into a worse situation through a failure to adhere to the July 1st–June 30th dates.

October 1st–September 30th Budget Period: Alabama and Maryland

Only two states are now in the October 1–September 30 class, Alabama and Maryland. (Mississippi, as has been noted, was in this group until 1936.) In the former State the relationship of the preparatory period to the fiscal year is of extremely limited importance in view of the quadrennial length of the budgetary period. Actually, the State has not, since it began

to function with the present budgetary system, been able to exist without revising its fiscal measures at some special session. At these sessions a corrective budget is not voted. Usually only isolated measures are passed. The fiction of a quadrennial period is maintained.

The statutes call for the submission of the departmental expenditure revenue estimates on October 1, fully one year before the period to which they refer begins, and thus actually involve a five-year planning which is reminiscent of Soviet Russia's long-term economic program. The Governor is empowered, according to the Special Acts of the Alabama extra session of 1932, (Sec. 13) to make estimates "as in his opinion are reasonable and proper" for agencies that fail to submit the necessary data on the Comptroller's blank forms given to them for that purpose. It is obvious that the Act tried to meet a specific need, and that there was a breakdown in the coöperation of the spending agencies. At the same time the Comptroller must have prepared an estimate of all income for the State "for each fiscal year of the ensuing quadrennium." In spite of the urgency that contributed to its adoption, this statute probably embodies the most absurd request found in any budgetary law in the country. Its implications regarding prophetic qualifications need hardly be discussed.

The Comptroller, who is the Governor's budget officer, must submit to the latter a tentative budget not later than September 1. Sometime within the following two months the Governor holds hearings at which he may require the attendance of all department heads. The Governor-elect, the Comptroller, and the Chairmen of the House and Senate Financial Committees are present. It is specifically indicated that the Committee Chairmen act as budget advisers, therefore indicating that the budget is not in the true sense an executive budget. The statute provides for the preparation of a budget by the newly-elected Governor. In 1935 the Governor-elect presented to the legislature the tentative budget prepared by his predecessor with the request that it be followed as closely as possible. In any event the Governor may make any revisions he sees fit and must present his budget to the Legislature not later than February 15. The implications of this unique arrangement are self-explanatory. The system has broken down on many occasions. The Brookings survey cites one example:

No budget proposals were submitted to the incoming legislature by the outgoing Governor in January, 1931. In the absence of complete data as to the financial condition of the state, the Joint Finance Committee of the legislature, by resolution, requested the Governor to submit such data. This was done under date of April 30, 1931, when the Chief Examiner of Accounts submitted to the committee certain financial statements to report: (1) The revenue and other receipts of the government and the disbursements for general and educational purposes for the period beginning October

1, 1926 and ending September 30, 1930, and (2) estimates of receipts and expenditures for the then current year ending September 30, 1931.

Subsequently, under date of June 9, 1931, Governor Miller submitted another report to the legislature setting forth the net current debt of the state on April 30, 1931 and the estimated condition that would exist on October 1, 1931. At the time of the submission of this report it was estimated that the cumulative general fund deficit on September 30, 1931 would approximately be nineteen million dollars.⁴

The Constitutional requirements in Maryland are not too specific with respect to the timing of its preparatory practices. It is required that the spending agencies submit itemized estimates of revenues and expenditures and other information in such form and at such times as the Governor desires. The Governor may provide for public hearings, and may revise such of the budget estimates as is permitted by law. Within twenty days after the convening of the General Assembly during the first days of the new year, the Governor must submit the budgets for the two fiscal years of the ensuing biennium. A newly-elected Governor receives ten additional days in which to prepare his program. The system is indeed a poor one, since it provides for beginning the legislative discussions some nine months before the period to which they refer. It is unfortunate that such a system is rooted in a constitutional foundation. In addition to the time lags, there are a few other common objectionable features to be found in connection with the preparatory practices.

September 1st-August 31st Budget Period: Texas

The fiscal year in Texas begins on September 1, and, as in Alabama and Maryland, the time lags are incredibly long. Estimates are submitted by the spending agencies to the State Board of Control on January 1 in the year preceding the legislative session, i. e., one year and nine months before the beginning of the period to which they refer. There is certainly enough time at the disposal of the State Board of Control to prepare the budget on the basis of the submitted estimates since its hearings and other duties may occupy it until September 1 of the year in which the estimates were submitted to it. Members of the legislature receive the budget on that date. Texas falls, therefore, among the group of states that place some belief in the sincerity and ability of the legislators since it makes an effort to provide them individually with material regarding the State's fiscal problems before the actual beginning of the budget period.

These last-mentioned three states are in a bad position. Their budget periods end just four, three, and two months before the legislators can act on the new appropriations. The opportunities

⁴ Brookings Institution, *Alabama Survey, op. cit.*, Vol 3, Part II, p. 166.

for voting provisional outlays to cover the intervening months are not present. As a result the states go back a whole year and provide for arrangements that make estimating even for the first year of the biennium a most difficult task.

That Alabama should be among these states serves further to indicate the absolute disregard of the forecasting problems that its provisions embody.

New York

New York's methods remain to be discussed. The magnitude and complexity of its problems are undoubtedly greater than those of any other state. It has a budget system that covers the bulk of the State fiscal activities instead of a minor portion not tied by any dedicated funds. It must annually review the biggest tax system found in any of the state political subdivisions.

The preparation by department heads of their expenditure requirements for the coming fiscal year takes place in the Fall. The State officers must submit during September a statement of requested appropriations to the heads of their departments. The Governor receives such estimates before October 15. It is interesting to note that a practice found in the federal government and in Florida is also followed in New York. The appropriation committees of the legislature receive copies of the estimates and may begin their semi-official deliberations before the final submission of the completed budget by the Governor to the legislature. Thus the Appropriation Committee receives the estimates before the Governor has made any revisions and it has, therefore, at its disposal the departmental requests which it may compare with the requests allowed by the Governor.

After October 15 the Governor has three months in which to prepare his revenue estimates and to make his recommendations with respect to expenditures. It is after this date that the real formulation of the fiscal program for the coming year begins. Also during that period the hearings on the budget are held. It is interesting to note that the members of the appropriation committees of the legislature are invited to attend and make inquiries. This provision probably facilitates the overdevelopment of executive budget power. The Governor must submit his budget to the legislature sometime before January 15. A newly-elected Governor is allowed a two weeks' extension and may postpone the submission of his fiscal program until February 1.

An effort to improve New York's system would reveal that it has avoided some of the more objectionable practices noted in the other states.

The significance of the Governor's program is not lessened by the fact that the spending agencies have a chance to have their original requests placed before the legislative committee members. These are undoubtedly of informational value only, since the Governor's preparation power is great and is virtually

unexcelled in other states. It is needless to add that the objectionable practice, noted in Florida and elsewhere, of having the preparation duties restricted to compilation functions alone, is avoided.

The State makes provisions for a new Governor and makes it reasonably possible for a newly-inaugurated Executive to propose his program to the legislature.

The State does not, however, go far enough in avoiding the possibility of a new Executive's being unable to make the force of his views effective in the basic preparation stage. The State shares this difficulty with many jurisdictions, a fact that has evoked the following comment:

In most states a newly elected governor takes office about the same time or very shortly before the legislature elected with him. This gives him too little time to prepare a budget. The result is that unless the governor has been reelected, he has had but little to do with directing the preparation of the budget. Various proposals have been made to remedy this situation, including the ideas that the incoming governor be formally associated with preparation of the budget, or even take office a month or two before the legislature convenes.⁵

To remedy the situation a few changes may be effective. One possible method would permit the newly elected executive to take part in the hearings and generally to participate in the preparation of the program. Some states make specific reference to the presence of the Governor-elect at the preparation stage hearings. It is possible to see that such methods are devoid of any political reality and that the real reforms must take partisan problems into consideration. One such plan has passed the State Assembly and Senate and will be submitted to a referendum vote.⁶ It provides a four-year term for the Governor. This change, if adopted, would reduce by one-half the frequency of a possible inauguration of a new executive and would mean that only once in four years would an executive find a restricted opportunity to plan the fiscal program that he must submit. Another proposed constitutional amendment would allow the new Governor to take office one month earlier than at present. In introducing this proposal its sponsor, Assemblyman Steingut, made specific mention of the budgetary aspect. He said:

At the present time the newly elected legislators and the Governor take their respective offices at the same time.

It is impossible for the Governor to adequately familiarize himself with his duties, prepare his budget within the constitutional time limit set, and at the same time prepare his legislative proposals and formulate his party's program.

⁵ *State and Local Budgetary Methods, op. cit.*, p. 15.

⁶ N. Y. Times, April 12, 1937.

I feel that the additional month would give the Governor a better opportunity to perform these functions in a manner most beneficial to the people of the State.⁷

The most important changes that must be considered deal with the time arrangements. The State will hardly derive any benefits from efforts to shorten the preparation period. Fortunately, the State does not maintain the needless distinction between the Governor and his own budget-making authority. There is no reference to the Director of the Budget or the Division of the Budget, which he heads, in the allocation of preparatory duties. No time is wasted by allowing this agency time in excess of that allotted to the Governor. In beginning his active participation in the revision of the estimates on October 15, only about two and a half months are available before the conclusion of preparation stages (allowing for the printing of the budget message and document).

The changes, if any, must be made in connection with the fiscal year. Governor Lehman in his budget message for the fiscal year 1938 suggested, as a feature of his comments on *Improvements in State Budgetary and Accounting Procedure*, "the shortening of the period between the submission of the executive budget and the opening of the fiscal year to which it relates."⁸ In the same message the Governor dwelt at length on the problems of revenue estimating. Undoubtedly this aspect aided in motivating the recommendation for change.

Two courses are open to the State, both of which involve a change in the dates of the fiscal year. One plan which would be relatively simple, would advance the opening date to April 1.⁹ This plan is of decided advantage, yet it would not eliminate all uncertainty regarding the accomplishments of the closing period. However, a gain of three months over the present arrangements could be readily achieved. The biggest result would be that the income tax on the earnings of the calendar year already closed would fall in the new year. If the problems of transition financing can be solved the change to an April 1st-March 31st period can be heartily recommended.

Some of the proposals made in connection with the federal government may be recalled. One involved the adoption of the calendar year basis for the budget period. The British method could not be adopted since under the present provisions for legislative sessions there would be no opportunity for the legislators to pass on a provisional financing program. The advantages are, however, great and satisfactory methods that may solve the difficulty growing out of the existence of a short period during which the new program is not voted are available. The State could adopt a program based on a complete knowledge of past

⁷ N. Y. Times, February 19, 1937.

⁸ New York State, *Executive Budget for 1937-1938*, op. cit., p. XXX.

⁹ Assemblyman Moffat has suggested a new Finance Law embodying such a change. See N. Y. Times, Jan. 30, 1937.

accomplishments, on an acquaintance with federal plans and estimates, and with a vastly superior background for efficient estimating.

Another method that would facilitate planning and close the gap between submission and the opening of the new period, would be the presentation of the budget in the legislature at a late date in the session. Such a procedure is not without precedent in the states (Illinois). It also has its advantages in permitting the Governor to include in his program proposals that are based on conclusive results of the past calendar year. This, for example, would prove invaluable in forecasting income tax yields. A better knowledge of plans and possibly even action on the part of the federal government might be noted. There are, however, inherent difficulties and disadvantages, and it is doubtful whether the method should be recommended. Its adoption in New York would require a constitutional amendment and would be no easier to introduce than a change of fiscal year dates.

Some change that would reduce the present six months interval between submission and the opening of the new period should be included among the most desired reforms in the New York budgetary system.

Summary and Conclusions

Most of the states offer a far greater field for improvement than does New York. When the frequency of the budget planning and voting is increased, as it undoubtedly should be, the advantages of better and more efficient arrangements will become evident. A further development of the executive budget concept will also bring the need to the attention of Governors who actually face and act on responsibilities for planning a comprehensive and unified program.

This part has revealed statutory provisions that do not incorporate the soundest approaches to modern budget problems. Were the states to be equipped with laws calling for new agencies and procedures, it is evident that their benefits would not be felt unless many jurisdictions had officers who followed their letter and spirit better than they have done in the past.

CHAPTER XXIX

BUDGETARY DOCUMENTS

Budgetary Documents of National Governments

It is not advisable to eliminate completely the question of budget documents from any survey of the preparation stage. Documents are essential for conveying executive budget programs and all the other informational data collected by the budget planners.

The national governments do not as a rule have any detailed provisions treating with budgetary documents and their form and publication, but few fail to publish some type of document. In keeping with the democratic character of various governments, their standards of fiscal efficiency and morality, and varying with the degree of public interest in budgetary matters, some governments issue and distribute documents that are more enlightening than others. Both the United States government and Great Britain, the two leading English-speaking jurisdictions, publish documents which the American states could well adopt as models for their own documents. Not only the form and material contained in these budget publications, but also the efforts to make the data comparable, are praiseworthy. The British especially render their documents particularly useful and comprehensible by revising the statistics of past budget periods in order to prevent any newly introduced changes from reducing the uniformity and comparability of the documents. Mallet and George report that Churchill, in presenting his 1928-29 budget, showed net instead of gross figures for some items and that certain data on all the self-balancing categories were eliminated. However, this Chancellor of the Exchequer went back to 1923 and recast, for the benefit of Parliament, all the budgets for the intervening years in the new form.¹ Such a practice, compared with the relative performances of some states, serves well as a measure of executive budget leadership.

Budgetary Documents of State Governments

The American states pay more attention to the form and content of their budget documents than does any other jurisdiction. This statement refers, however, to their statutory and constitutional recognition of the problem; it does not describe the status of actual practices. A great many jurisdictions even fail to provide the legislators with any documents, while a greater number fail to make provision for publication and distribution. Tennessee, for example, is reported to disregard the statutory requirement that an adequate budget message be printed and that at least one copy be made available to each member of the legislature. In

¹ Mallet and George, *op. cit.*, p. 217.

Illinois publication of the budget document was omitted on several recent occasions. The last available document is only a pamphlet giving a summary of statutes. Kentucky published no document at the time of the submission of the last budget program. It is reported that several copies were prepared for the Legislature and were kept for reference. No copies were available for public distribution.²

Alabama is another commonwealth in which the draft budget is printed but is not made available. Since the budget program is submitted quadrennially the added cost of distribution would not be too great. In a few states no documents linked to the preparatory stage are published, but the voting of an appropriation bill enables some publication showing the voted program to be issued.³

A number of states appear to meet the minimum requirements of their laws but do not present documents that can be termed adequate. This may reveal negligence or may indicate that the fact-finding services of the state are not functioning properly. Such was the case, for example, in Oklahoma where the Brookings experts had the following comment to make regarding the documents in that State:

The budget report now submitted to the legislature is little more than a pamphlet of summary estimates of those funds now required by law to be appropriated biennially by the legislature. In general, it conforms to the legal requirements of the Budget Act with the exception of the financial statements supplied by the State Auditor under Section 3 of Chapter 142, Session Laws, 1919 (Stat. 1931, Sec. 537). It does not, however, conform in content and method of presentation to the generally accepted proforma budget report. Neither does it supply all the information required by the legislature to determine the financial status of any given fund or groups of funds. This is due, in part, to the fact that the central accounting system now in operation is faulty in that it does not produce the kind of financial data needed to report the financial condition and operations of the state government.⁴

In pointing out how the document in this State fails to meet generally accepted standards, the experts note further:

The budget document submitted to the legislature is incomplete because it does not include a budget message and gen-

² The writer has been informed that for the biennial period beginning July 1, 1938 the Division of the Budget in the Department of Finance will prepare a budget in keeping with legal requirements. (Letter from F. D. Peterson, Director of Accounts and Control, Department of Finance, Frankfort, Kentucky, under date of March 19, 1937.)

³ Prior to 1935 West Virginia published only a document showing the budget program approved by the legislature.

⁴ Brookings Institution, *Oklahoma Survey*, op. cit., p. 237.

eral statement summarizing the Governor's proposals and the effect that such proposals will have on the financial condition of the several funds now appropriated by the legislature; it does not present the appropriation estimates in sufficient detail to be of real service to the legislature in performing its function of determining what sums shall be appropriated for the activities of the departments and establishments of the government; and it does not contain any comprehensive financial and statistical statements.⁵

Careful study of state documents would reveal similar situations in other jurisdictions. It is evident, however, that New York's practices conform to the highest levels of budgetary content. Its recent documents have been, together with those of New Jersey and Washington, among the best in the country. Particularly New York's practice of including the Governor's Message and his summary informational tables renders the documents useful for public distribution. The fact that a state such as Montana can issue an excellent budget document indicates that such a practice is not restricted to the wealthier jurisdictions.

Conclusions

It is not possible to consider documents apart from the general standards of budgetary matters. States in which executive budget leadership is legally non-existent or in which the executives fail to fulfill the duties allocated to them are bound to have inadequate documents. Equally, states in which there are many independent funds or continuing appropriations will probably fail to prepare documents that measure up to the standards set by states in which the budget systems enjoy greater comprehensiveness and unity. A symptomatic relationship between adequate documents and general efficiency is not to be denied.

⁵ *Ibid.*, p. 243.

PART IV^x
BUDGET PROGRAM ADOPTION

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CHAPTER XXX

PROBLEMS OF BUDGET PROGRAM ADOPTION

The Rôle of the Legislature in Budgetary Matters

Following the various procedures in the preparation of fiscal programs, the problem of legislative action on the fiscal program outlined in the budget is next approached. In an analysis of the American states and the federal government, this stage requires complete consideration. Occasional subordination of legislative authority due to close cooperation with a dominating Executive, as in the case of Louisiana under the late Governor Huey Long, does not tend to invalidate the above generalization. Particularly the fact that most states grant other than advisory powers to the executive in the matter of budget formulation requires complete recognition of the legislative practices as the focal point of budget planning. Nowhere does there appear to be a similar concentration of undelegated power in the hands of lawmakers; regardless of the so-called executive budget philosophy that has swept this country, the adoption phase remains of paramount interest.

The supremacy of the legislature is, of course, not found in certain European countries where the temporary suspension or the permanent abolition of legislative powers has been a common tendency in the post-war period. The growing prominence of totalitarian governments and a general twilight of legislative powers in some other nations has reduced the significance of the adoption phases of some national budgetary systems. Of the leading powers Germany adopted its last two budgets under the Republic through Presidential decree, and since the advent of the National Socialist regime in 1933 all vestiges of legislative powers remaining in the hands of the Reichstag have been eliminated. In Italy until recently, the formal legal framework of a functioning legislature was maintained. At present a new body is replacing the Chamber of Deputies and its activities will be of minor value to those seeking satisfactory practices and processes for the American state units. On the continent Lithuania and Portugal have also definitely abolished their legislative bodies, while in several other nations a *de facto*, if not a *de jure*, concentration of the lawmaking and executive power is in effect. Elsewhere, particularly in South America, similar trends can be seen.

It is, therefore, to only a few units that the American student can turn for institutional backgrounds relevant to his problems. Occasionally some of the *de jure* provisions may be of interest. No attempt will be essayed to evaluate the basic importance of any of the so-called "rubber stamp" legislatures.

The Study of Budget Program Adoption Problems

In the literature on budgetary matters there is a tendency to assume without questioning the desire and concern of the executive for a balanced and studied fiscal program. At the same time unguided legislative action on the program or legislative initiated plans, because of the impulsive, political, or amateurish character of lawmakers' action, is assumed to be harmful. This is, of course, frequently a totally absurd assumption and it is not necessary to turn far in order to find strong legislatures attempting to check the hand of a reckless executive. In some quarters at least there is a sincere appreciation of legislative concern over economy. It can be seen in the fact that jurisdictions that have deprived the legislature of much power still allow the lawmakers to decrease or eliminate proposals of the executive. There does not appear to be any consistent reasoning behind the discussions of the subject.

Following the thought that has justified the executive budget movement, faith in the executive and suspicion of the logrolling pork-barrel legislature is not out of place. Yet for the purposes of this study generalizations regarding the respective merits of executives and legislators in matters of sound financial policy need not be discussed. It will tacitly be assumed that lawmakers tend toward heavy expenditures and dislike the onus of imposing new taxation. It is important, however, to note the existence of many restrictions, self-imposed, traditional, or otherwise, which limit the scope of legislative action on the fiscal program submitted by the executive or which curtail legislative initiative. These restrictions may or may not be in keeping with true executive-legislative relations or with the respective interests of each, for sound fiscal planning. There is, however, ample justification for a careful review of their nature and logical effect with respect to budget planning and voting.

The complexity of the various elements that affect the problem of fiscal efficiency requires a division of the discussion under several headings. In this part these are discussed in the following order. In the first chapter are noted the existence of specific limitations, statutory or constitutional, the traditional inhibitions on the power of the legislatures to make changes in the program submitted by the executive, or on their powers to initiate fiscal measures of various types. The character of these restrictions, their observance, the methods by which they are evaded, and their general influence on the specific problem of adjusting fiscal policy to fluctuating economic backgrounds are discussed in detail. Also surveyed are the numerous requirements that have been imposed with respect to the adoption of a balanced fiscal program, primarily in the American state systems. Together with the requirements for the executive submission of a balanced budget these specific requirements add the final touches to a strict legal background for planning anti-deficit budgets.

Some attempts will be made to determine the significance of a balanced budget as voted in the legislature. The purpose of

the presentation is to stress the functions and duties as well as the powers of the lawmaking bodies, and to establish the particular needs that are significant in terms of budget voting. Fiscal legislation, which stands apart from all other provisions affecting general legislative activity, is analyzed only as far as it relates to budget problems rather than to specific expenditure, taxation, borrowing, or administrative factors.

Second, the question of legislative organization is reviewed. There is a considerable variation found with respect to the arrangements and the allocation of powers between chambers and between legislative committees. It will be shown that in each case not all are equally desirable from the point of view of facilitating the adoption of a sound fiscal program.

Discussed Phases of Budget Program Adoption

The first problems discussed are those that are relevant to bicameral legislatures. Variations between American and foreign practices are noteworthy. Equally important is the question next discussed, committee organization, powers, and duties. Legislative committees have important powers in the passage of fiscal legislation. This is particularly true in the United States where a virtual system of committee government is found. The concentration of budget-making powers in the committees is frequently greater than legal requirements denote and explains why committee arrangements are emphasized. The issues of joint membership and of comprehensive and unified committee coverage are discussed because of the fruitful scope in our states for committee arrangement revisions in these directions. As has been the practice heretofore, the actual practices and the comments dealing with national governments are first analyzed. State problems are next discussed.

The problem of the frequency of sessions is also treated. This, as has already been noted, is a problem concerning the states exclusively since there is no instance of any national government, in which legislative power is still undelegated and undiluted, failing to have a regular legislative session providing opportunities for an annual review of the fiscal program. The question of frequency of session forms the focus for important recommendations affecting the practice of many state jurisdictions in view of their experience with special sessions and other devices to ameliorate the difficulties of infrequent and of short meetings of state legislatures.

The succeeding chapters begin with brief mention of the problems associated with the submission of the budget program to the legislature. Subsequent discussion deals with the processes of voting budget bills in the legislature proper. The analysis is in terms of bicameral legislatures since this describes all but one of the legislative bodies in the American states. Emphasis is laid on the various time relationships that are associated with legislative practices. The problem of frequency has already been mentioned. There remains the question of the time of the legis-

lative period in relation to the fiscal period, the duration of the legislative period, and the relationship of these time elements to the fiscal period. Such legislative practices as split sessions are discussed in this connection. Of greater relevancy in relation to the adoption of the budget program are the various restrictions and requirements with respect to the time and duration of the discussion of budgetary matters. There are requirements of various types. These indicate when budgetary discussions must be begun, how long they must last, and when they must be concluded. Some questions bearing important implications with respect to the adoption of a balanced program by the legislature and referring to the time at which fiscal items outside those included in the budgetary estimates are voted, are analyzed at a later point in connection with supplementary items.

Brief mention is made of the veto power allocated to executives and the ultimate promulgation of the voted programs. This discussion is followed by a consideration of two special phases of legislative action on budget matters.

These problems concern legislative action but they may be arbitrarily considered to lie outside the scope of problems dealing with the adoption of a fiscal program. The first copes with the question of supplementary estimates and corrective budgets. These practices, which contain many possibilities for disturbing previously planned and adopted programs, are of considerable importance to the problem of balanced budget programs. Other legislative problems growing out of necessity for readjusting measures to changes that have occurred in past or current fiscal periods are noted. The problems of deficiency appropriations included in the discussion form a convenient link to the execution problems discussed in the next part.

A further group of problems is raised by the various times at which budgetary programs are adopted and become effective. They form the subject matter of a further chapter. Particularly the question of making adjustments for programs adopted after the beginning of the fiscal program to which they refer will be analyzed. In view of the pronounced desirability of postponing preparation, submission, and legislative adoption until the last practicable date, the adequacy of the arrangements for overcoming certain obstacles inherent in practices eliminating time lags must be analyzed. While some jurisdictions, both national and state, always engage in post-period voting, in other jurisdictions legislative delays and deadlocks have frequently led to the failure of the lawmakers to vote fiscal programs in time to be effective at the beginning of the new budget period. The devices to meet such contingencies are analyzed in the concluding chapter.

Added Problems of Budget Program Adoption

The outline of the chapters that follow indicates that this part has not exhausted the phases of legislative activities that fall within the scope of budgetary studies. Such problems as

the unit of voting, priority of revenues or expenditures, hearings, riders, and documents receive considerable recognition in budgetary treatises and cannot be completely neglected in any descriptive or analytical study. In this study some of the questions are treated in connection with the execution or preparation stages; others are only briefly mentioned in the pages that follow. Unfortunately, because of lack of space and other limitations, not a few are entirely omitted.

The Unit of Voting

One of the most basic factors in the problem of adopting the budget as well as its subsequent execution and control treats of the unit of voting and the degree of detail that is accorded expenditures. (With respect to revenues, the problem is virtually non-existent.) The question of lump sum versus detailed voting can be discussed both in connection with adoption and the execution of the budget. With regard to the former, legislative ability to discuss both policy and detail requires attention to both the bills as a whole in large units and to individual items. The problem cannot be discussed from the legislative angle only nor are the phases of the problems linked to the execution stage readily solved without a consideration of the adoption phases.

The classification of the appropriation bills and the unit of voting are most commonly associated with the question. However, interest should also center on the question of whether or not the budget is considered as a unified fiscal program, or whether the recommendations of the executive presented as a unit are split into many minute sections which are not brought together again for review and adoption, and which are not prepared for adequate execution stage control.

At the one extreme we have the voting by the legislature of the budget as a whole. This implies that a vote is taken on the budget program as a unit comprehending a fiscal plan of expenditures and of revenues.

Denmark, France, Rumania, Sweden, Italy, Turkey, and (previously) Germany among national governments are known to provide for voting by the legislature on the program as a whole. In at least several of these jurisdictions, particularly Sweden and Italy, the practice is connected with the relation of the budget to a government-controlled economic program. Russia undoubtedly maintains its fiscal and economic program intact during such legislative review as is accorded in that country. For the other countries the budget is voted in terms of ministries, service categories, departments, purposes, and a host of other classifications, and may not receive unified attention after the various subcategories are voted. The units known as articles, paragraphs, chapters, headings, etc. comprehend varying objects and subject matter. After their initial introduction as a unit a view of the program as a whole is lost. It is desirable that the legislature review the budget program in its entirety since the specific

requirement that it be segregated for measurement of adequacy and other factors that tend to unify state expenditures is absent.

In the federal government of the United States, for example, the question of the extent and status of the proposed deficit, the relation of some expenditures to others, and various other factors would be subject to greater consideration if the vote on the budget program as a unit were taken. Particularly, the practice would encourage greater consideration of the executive budget and its recognition of a fiscal program. It is easy to appreciate the fact that marked changes in the institutional background of our legislative processes, both on the floor and in committee, would be necessary before the budget could be voted as a unified act. For one thing a periodic review of revenues would be essential.

In the American states the fact that there are legal requirements regarding the financing of expenditures has tended to encourage some voting in terms of an entire budget or a complete expenditure program. Wisconsin appears to be one of the units voting the executive budget bill in its entirety. This has made possible Wisconsin's interesting proposal which would have allowed for variable expenditures dependent on revenue yields. It should be noted that in Wisconsin each House votes on the executive budget bill as a unit, in addition to its review by line or section.¹

Other states that follow the practice include California, which enacts the program in one budget bill containing all appropriations other than fixed charges and continuing items; Connecticut, where general expenses are voted in a single appropriation bill exclusive of capital expenditures, which are voted in a special appropriation bill; Florida, in which only a few special appropriations are made in separate bills; Georgia, in which one bill includes all the general operating expenses of the State and another bill is voted for expenses of the legislative departments; Iowa, in which there is one bill carrying general appropriations and a number of separate bills providing for miscellaneous appropriation bills; Maryland, in which the general expenses of the State for each of the two fiscal years of the biennium are voted in a single bill; North Dakota, in which there is one general appropriation bill providing funds for the regular departments and State institutions, as well as several other appropriation bills providing funds for a single purpose; also Tennessee, where there is a general appropriation act and a miscellaneous appropriation act (it should be noted that Tennessee along with Wisconsin reports that a vote on the entire budget as a unit is taken); Utah, in which the legislature votes

¹ Buck noted that Wisconsin, together with a few other states, voted changes in appropriations by means of amendments to permanent appropriation Acts which were a feature of the certified law. This practice, which is undoubtedly based on a continuing appropriation philosophy, has nothing to commend it. Buck I, *op. cit.*, p. 136.

one appropriation bill to cover the general expenses of the State and one for deficiency items, and in which the final bill is voted upon as a unit by the entire legislature; Virginia, in which appropriation bills are voted as a unit and a vote is taken on individual items only in the case of amendments; and West Virginia, in which the general expenses of the State are voted in a single appropriation bill.

We find at the other extreme such states as Alabama, Idaho, Illinois, Mississippi, Missouri, Ohio, Oregon, and Texas. In these Commonwealths a number of separate appropriation bills are voted, each bill providing funds for a single department or some other organization or spending unit.

In Idaho, Ohio, and Oregon each bill provides funds for a single organization unit. In Illinois appropriations for budget units on a departmental basis are voted separately, as are bills making appropriations for particular purposes.

The Brookings Survey has shown the extent to which Mississippi needlessly complicates its legislative processes and fails to foster a unified approach to expenditure problems. In suggesting general appropriation bills covering all ordinary expenses of the State the experts commented on the situation they found.

To some extent the large number of bills is due to the practice of excluding from the General Appropriation Bill appropriations which might be properly included in that measure, the expenses of the Legislature serving a second time as an illustration. Thirty-two of the 118 appropriation bills enacted at the 1930 session might properly have been included in the General Appropriation Bill; this despite the fact that at that session for the first time, appropriations were included in that bill for Assessors' Salaries, State Board of Health, Livestock Sanitary Board, National Guard, State Penitentiary and Common Schools. Other services which might have been included, and were not, are: Geological Survey, Agricultural Service Department, Forestry Commission, Service Commission, Plant Board, State Chemist, and Library Commission, and all of the agricultural experiment stations.

It is to be noted that the State Penitentiary appropriation was made through the General Appropriation Bill in 1930. If this is proper under Section 69, the appropriations for other State institutions can and should be included in that bill. This would effect a further reduction by about a score in the number of separate measures to be enacted.

The number of special and miscellaneous appropriation bills enacted in 1930 was sixty-five,—over half of the total number of appropriation bills enacted at that session. Many of these related to the same subject, and by intelligent grouping their number could have been considerably reduced.²

This should serve to indicate the manner in which some commonwealths fail to indicate, through their voting, that a unified

² Brookings Institution, *Mississippi Survey*, *op. cit.*, p. 363.

view of the state finances, is taken. It should be remembered that the unified approach is lacking even for the limited phases of the state finances which are subject to periodic legislative review.

In New York the separate departments are classified according to basic activities and functions. It is surprising to note that the entire expenditure program is, nevertheless, taken as a unit, and that comments by the press are in terms of the voting of the whole budget. On recent occasions both the Assembly and the Senate have gone so far as to vote on all the Governor's budget bills covering revenues and expenditures as a unified program. There is no doubt that the formal provisions are not indicative of the attitude taken by the Legislature and that actual practices may be contrary to stated procedures.

As has been stated before, the need for a unified viewpoint is not as important in the American states as in the national government, because of the fact that in the states the entire expenditure program must be planned within revenues, regardless of whether the legislature reviews the program in its entirety or not. It should be recalled however that the legislature can cover only those expenditures that are periodically reviewed. Even where there is a single bill covering the recommendations embodied in the budget submitted, a large part of the state's expenditures may be omitted. Moreover, students of budgetary problems have been in agreement regarding the desirability of comprehensive legislative review of the budget program.³ During the course of a regular legislative session three major appropriation bills, a general budget, a capital outlay, and a supplementary budget bill, could well comprehend all outlays over which the legislature exercises control. In addition to the provisions and tradition that foster a comprehensive legislative viewpoint, it is desirable that the executive submit appropriation bills with the budget document. This would facilitate a unified consideration now lacking in many legislative processes. It is fortunate that the states are tending away from an unreasonable multiplicity of appropriation acts.

A frequently discussed phase of the voting problem deals with the degree of detail in which outlays are voted. They can vary from lump sum appropriations of billions for a vast national program to an itemized line appropriation covering the salary of a clerk or stenographer. Questions of legislative procedure are intimately connected with the unit chosen, since that determines the scope of the debates and questions that may be raised. Wherever executive power is great, as exemplified by reduced

³ An example of the opinions of budgetary experts is noted below in the Brookings recommendations for Mississippi.

Article 4, Sec. 69, of the Constitution should be amended to provide that all appropriations out of revenues should be included in a single budget appropriation bill, and all permanent improvements out of bond issues should be appropriated in another single act to be known as the Permanent Improvements Appropriation Act. *Ibid.*, p. 368.

legislative power or by a scant legislative attention to the estimates, there is ample reason for omitting details unless an itemized appropriation act is essential for subsequent administration. From an economic point of view the omission of details enables attention to center on significant points and allows considerable leeway in the allocation of funds for a particular function. Capital construction projects, armament programs, and large relief grants-in-aid are seldom presented in sufficient detail to permit satisfactory presentation or voting.

In general the influence of administrative reform on budgetary procedures, as shown by civil service classifications and other devices designed to insure efficiency and honesty, has tended to encourage detailed voting with funds minutely allocated. From the point of view of economic control the influence has been towards lump sum outlays leaving room for discretionary commitments for allotments based on economic and financial criteria. A common practice is to consider any subheadings as related to technical and administrative problems but not restricting, within specified limits, the changes or shifts that might legally be made.

Recently the wane of legislative power and the growth of economic influences have both led to extending the size of units in the voting of expenditures. In France the fact that units of chapters were abandoned for larger Ministry grouping has already been noted. In the United States several unprecedentedly large appropriations, with slight indication of allocation, have been a feature of the Roosevelt Administrations. In other nations the depression, with its stress on economy or on large loan-expenditure programs, has also led to a larger proportion of lump sum to detailed units than was previously found. The proportion of governmental funds that is spent on the regularly established executive departments and agencies, the ones for which detailed estimates are best adapted, is constantly decreasing in the face of growing fiscal participation in economic life. The real significance of this trend in terms of voting units lies in the enhanced executive power that the changing character of fiscal planning and budgetary execution requires. Some elements are discussed in the following part while at this point it must be recognized that any trend towards larger voting units has numerous influences on legislative processes and arrangements. Some indication of the actual practices is also noted in the descriptive charts made available with this report.

At this point some of the views dealing with the legislative phases of the problem will be mentioned. The discussion can be in terms of only general conditions. In each jurisdiction the specific character of the fiscal programs and policies, the governmental structure, and the distribution of talented financial leadership between the various state agencies will determine the reforms that should be made. There appear, however, to have been common tendencies. Buck noted that at the turn of the twentieth century the political subdivisions followed the practice

of voting appropriations in lump sums. At this time waste and graft were widespread, due largely to the fact that:

administrative officers having lump sums of money at their disposal flung money right and left to hire henchmen and fatten contractors. This condition was naturally ascribed to the general lack of restrictions placed on the appropriation by the legislative bodies. The remedy suggested to meet it was the detailed itemization of the appropriations.⁴

It is evident that administrative rather than economic or fiscal motives prompted the legislators to specify expenditures in great detail. There is no indication that the law-making bodies favored line budgeting because of the opportunities for individual debate on specific items that it offered. The practice of detailed appropriations remained in vogue until the wave of budgetary reform started. New York was one of the first to start the trend in the other direction. In the budget submitted by Governor Whitman in 1916 the appropriations were recommended in lump sums and were supported by itemized schedules. Maryland adopted the plan in a modified form one year later.⁵ Since then the states have apparently been able to think more in terms of fiscal efficiency than of administrative abuses. If legislators are to concentrate on broad questions of policy, as they should in our dynamic economy, there is no need for providing for detailed review. Such an itemized study can be called for whenever the need arises; permanent provision for it is not necessary. Certainly if legislators are justified in permitting a large portion of a state's outlays to avoid periodic voting through their inclusion in continuing appropriation acts, there need be no objection to relinquishing detailed review for that portion of the finances that is regularly adopted.

There are several other questions dealing with appropriation bills. Their form, for example, is of the greatest significance in any political or administrative approach to the budget problem. These questions, however, are not discussed in this study.

Riders

The question of "riders" is another favorite budget subject that is not analyzed in this study. The relative importance that is granted to the problem in foreign budgetary studies can best be realized from the fact that one of the theoretical budget principles deals with it alone.⁶ In connection with the special procedures provided for money bills in general or the budget measures in particular, many prohibitions against the attach-

⁴ Buck I, *op. cit.*, p. 128.

⁵ *Ibid.*, p. 135.

⁶ The principle of exclusiveness "dictates that non-fiscal material be excluded from the budget." *Budgetary Principles, op. cit.*, p. 246.

ment of riders (amendments dealing with irrelevant or non-fiscal matters) may be noted. Occasionally in the states, as in Illinois, there are constitutional or statutory limitations aimed against the practice of "tacking," the term applied by English writers in discussing riders. Although the problem is not devoid of implications regarding fiscal efficiency, it is of relatively minor significance and need not be treated at any length. There does not appear to be any considerable need for isolating fiscal measures from other legislation in our legislative processes. The problem is, therefore, not as significant here in the United States as it may be elsewhere. Inasmuch as the elimination of riders does not compromise legislative deliberations and facilitates the passage of the budget bills through the legislative chambers, it should be a desirable attribute of the adoption stage. Students of budgetary problems and of political science are in agreement regarding the outlawing of riders, though the distinction between fiscal material and related economic subjects has not been adequately explained.

Voting Priority

Another popular budgetary question linked to the adoption phase, and one that is closely connected with the question of fiscal policy, is that of the priority of voting revenues or expenditures. The question was indeed a favorite among the continental students of financial administration and led to important discussions and maxims for procedure.⁷ "Are expenditures voted first and revenues subsequently considered?" was a frequently posed question. In attempting to answer the provocative query the writers soon ran into questions of fiscal policy and had to treat with the question of the choice of the variable factor in the budget picture. Unless a complete analysis of financial and economic elements could be presented, the ultimate result was a begging of the question.

It is seen that as a rule national governments vote appropriations before making revisions in tax or borrowing policies. All the nations in the British group introduce expenditure estimates at an earlier date than they do revenue proposals. This results in a prior consideration of outlays by the Parliaments. Elsewhere an emphasis on expenditures in the budget messages, as is found in the United States, results in legislative preoccupation with the executive proposals regarding appropriations that are submitted early in the sessions. In other jurisdictions the priority of outlays can be traced to the fact that revenues are not necessarily voted anew each period. As a matter of fact, Allix indicates that only Belgium and Switzerland usually vote revenues before expenditures are authorized.

The question of priority in voting has not been without significance in the American states. The variable property tax rate, normally adjustable to any desired level, was well adapted to a

⁷ Jéau-Neumark, *op. cit.*, p. 302 ff. Allix, *op. cit.*, p. 202 ff.

fixed legislative attitude with regard to priority. The practice at which all the various anti-deficit provisions and amendments hint is the prior determination of outlays and a subsequent fixing of tax rates or discovery of revenue sources.

As in the case of the national units, it is absurd to establish any common procedure that all the commonwealths are to follow. Certainly the decreased importance of property tax yields in the state revenue picture should eliminate any assumption that states can be assured that they have taken care of the problem with either a prior or postponed consideration of revenues. There are, nevertheless, still some indications that the neglect of revenues or the false illusion of the old property tax days, which still permeates the fiscal philosophies of many concerned with state finances, requires the states to be made conscious of the revenue problem. This must be done if they retain their present debt limitations and policies, and if they wish to avoid the retrenchment and economy experience of the depression. In connection with a need for avoiding the encouragements to legislators to vote appropriations and then to deal half-heartedly with the revenue features, suggestions such as those made by the Brookings experts may be noted:

One way to avoid a deficit is first to pass a revenue bill, and then put through the appropriation bills up to the limit of the prospective yield of the revenue measure. This is the safe practice of "counting your money before you spend it."⁸

The fact that the legislators in Mississippi had failed to carry out their duties of varying the ad valorem property tax rate after they had voted the appropriation bills prompted this comment.

Actual state practices indicate the same tendencies noted in national units. Revenue measures are usually voted after the outlays are fixed. The final adoption of one series of measures before another is not important. What is essential is that the budget program with its emphasis on revenues and disbursements be constantly kept in the forefront. Towards this end committees dealing with the entire budget program, the voting of the budget as a unit, and a host of other practices and devices have been suggested.

Economic and fiscal conditions will always determine emphasis and priority and it is wrong to establish norms for procedures which assume the isolation of one feature of the budget program while the other is fixed. In both revenues and outlays there are elements which can be readily carried over and which seldom enter into the heated discussions that newer or more variable elements bring in their wake. No unit can year after year adjust revenues to outlays, or vice versa. If the experience of the recent years has taught any budgetary lesson it is that the

⁸ Brookings Institution, *Mississippi Survey*, op. cit., p. 366.

correlation of expenditures and receipts should always be kept in mind. Modern economies and fiscal systems are far too complex to be subjected to any rules regarding norms for periodic adjustments. Even the British, with their device of a variable basic income tax rate and of a changing tea duty, or the states with their property tax rates adjusted to meet expenditure needs, find that their practices do not signify that without further concern their financing problems are solved. A dislike of deficits creates a motive for budget planners and for the law-makers to take periodic steps to view expenditure requirements. Priority in this sense does not denote absolute variability of one side of the budget in response to another.

To the writer it appears that a concern over priority in voting revenues or expenditures represents a mistaken view regarding the scope of budgetary studies.

Documents

It is not unusual for treatises on budgetary problems to discuss some of the publications that grow out of legislative acts. In some studies all questions dealing with budgetary documents and with their availability is discussed as a feature of the publicity principle.⁹ There remains no doubt that, excepting in those jurisdictions in which a unified finance act is voted in its entirety, or where the executive budget is usually passed as submitted, some publication showing the fiscal program that is to be in force should be issued. Few in government or private circles can readily obtain a summary from the isolated measures and from the continuing items that determine the fiscal policy that is to be carried out.

In the mention of documents showing proposed budget programs in the previous part it was indicated that a few jurisdictions, national and state, make some efforts towards meeting the problem. One or two of the states go so far as to publish only a document showing the budget as voted. It can hardly be expected that the adoption document will exceed the budget documents themselves in excellence and clarity. All the obscure relationships that budgetary systems, lacking in comprehensiveness and in unity imply will hardly be conducive to a clear summary of a legislatively sanctioned program for the next period.

Administrative and statistical needs require some digest of the appropriation bills to be made available. Such a document is represented by the federal government's bulky publication entitled "Appropriations, Budget Estimates, etc." It is prepared by the Appropriation Committees of the Senate and the House and is required by law.¹⁰

⁹ "Der Grundsatz der Öffentlichkeit des Budgets." Neumark, *op. cit.*, pp. 347-378.

¹⁰ A recent document showing the statements for the second session of the 74th Congress is the Senate Document No. 276 of that session.

The volume contains, in addition to all the major appropriation acts, those for miscellaneous purposes, for indefinite and permanent outlays, and a recapitulation of all appropriations. There is also a chronological history of appropriation bills, references to contracts and appropriations, authorizations, and an important comparison of budget estimates and appropriations. The publication does not meet present needs because of its tardy appearance, its relative obscurity and bulk, and above all because of its disregard of revenue elements. It is however a very excellent and comprehensive summary of all outlays that have at one time or another received legislative sanction during the particular period. Such a document might serve as a splendid model for similar publications in the states, and by virtue of its treatment of continuing and indefinite appropriations, might serve also as a model of comprehensiveness for budget documents and for legislative processes.

In addition a document following the pattern of the executive budget summary should be issued. President Roosevelt recognized the absence of such a document among federal publications. In his 1935 budget speech (and in a speech made in connection with an informal review of the nation's financial affairs in September, 1935), he stated:

In order to promote more satisfactory methods of budgetary control in the government, I propose this year to inaugurate the policy of having a Summation of the Budget prepared for publication immediately after the Congress has acted on all financial matters. This summation will be ready on or before July 1, unless the Congress is still in session. It will be presented along the lines of the general budget summary and supporting schedules, including Statements Nos. 1 and 2, as shown in this budget. It will exhibit the revenue estimates, so revised by the Treasury as to reflect any changes in the economic situation during the preceding six or seven months and also any revisions made by the Congress in the tax laws. It will provide a complete summary of all appropriations and expenditure authorizations made by the Congress and related estimates of expenditures. Lastly it will indicate the need for executive or administrative measures in controlling the execution of the budget during the fiscal year 1936.¹¹

The prolonged session of Congress in 1935 did not enable the legislative tax program to be known before the opening of the budget period. As a result it was not until the end of September, almost three months after the new program was in effect, that the statement was issued. It took the form of the general budget summary that is required by the basic Budget act and that appears each year in the budget documents. An added column

¹¹ *Budget Message of the President and Summary Budget Statements for the Fiscal Year Ending June 30, 1936*, (Washington, 1935), p. xv.

labelled "Revised Estimate Fiscal Year 1936" showed the appropriations as voted and the latest estimates of tax revenues that would be collected during the fiscal year 1936. This first summary not only featured legislative revisions but carried new revenue estimates which were made in this case at least 9 months after the budget estimates. The revisions that were made give some indication of the value of the information and knowledge gained by the estimators during the intervening period.¹² The new plan inaugurated by President Roosevelt lost some of its value in the first attempt by virtue of the fact that its delay brought it into close contact with the 1936 budget document in which estimates based on six months' experience were presented as usual. The idea is, however, praiseworthy and the presentation of the voted budget summary with revised estimates will be of great value in informing and orienting legislative and public interest. It is common for other governments to publish documents showing the budget as voted. The surveys made by the League of Nations indicate that failure of democratic or quasi-democratic units to publish voted appropriations, in addition to drafted budget documents, is exceptional.

The states could follow the federal government's practice only if their original budget summaries were as useful and if they made similar efforts to revise revenue estimates. Few states are prepared to do this even for the limited scope of their annual or biennial finances.

New York State took a step in the right direction when its Budget Director released a statement showing the total expenditures that had been approved by the Legislature. In addition to omitting any revised revenue estimates, the Budget Director's announcement, issued on May 24, 1934, did not include the entire appropriation program because of the fact that the session had not yet ended.¹³ In his 1937 Budget Message Governor Lehman proposed the publication of the complete budget in one document in the form in which it finally becomes effective.¹⁴ A tax survey commission in Oregon made a similar suggestion:

The State budget law at present does not provide for the publication of the budget as finally adopted by the legislature and approved by the Governor and the commission believes that this provision is necessary and that the classification as published in the budget should be the same as used for all accounting and reports.¹⁵

The experts of the Institute of Public Administration favor the publication of a statement as outlined above. In the recommendations for New Jersey they stated:

¹² The Budget Summary and the President's explanatory statement received widespread public discussion in the press. See *N. Y. Times*, September 30, 1935.

¹³ *N. Y. Times*, May 25, 1934.

¹⁴ *New York State, Executive Budget for 1937-38, op. cit.*, p. xxx.

¹⁵ *Report on Property Tax Relief*, (Salem, 1929), Chap. II, p. 29.

Within ten days after final action has been taken on the budget bills by the General Assembly, the joint budget committee shall make public a summary statement which shall be in the form of the general budget summary. . . . This statement shall show clearly, in addition to the figures set forth in the general budget summary, the changes made by the General Assembly in the course of its consideration of the Governor's budget.¹⁶

It may be assumed that the statement would include revised revenue estimates. New Jersey's comprehensive budget document would lend itself admirably, as would that of New York, to a post-adoption summary.

Before proceeding it should be noted that throughout this discussion no effort is being made to deal with political realities. Those acquainted with the current developments in any jurisdiction will find in this section an abstract and inadequate skeleton. It requires flesh, color, and warmth to give it life, and enable it to portray contemporary legislative problems growing out of partisan and regional interests. With these considerations this part has no concern.

¹⁶ Institute of Public Administration, *New Jersey Survey, op. cit.*, p. 106.

CHAPTER XXXI

LEGISLATIVE POWERS IN BUDGETARY MATTERS; NATIONAL GOVERNMENTS

The Nature of Legislative Powers

The problem of voting a balanced fiscal program, especially one that is endowed with survival qualities, forms a convenient point of departure for viewing the powers and duties of legislative bodies. In national governments the limitations on free and unhampered legislative action on fiscal policy in general and budgetary matters in particular are of two types.¹ The first denies to the legislators the power to modify at will the fiscal program submitted to them by the budget-making agency. Naturally there are restrictions, not absolute limitations, on the power of the legislature to modify executive proposals. It is possible to assume that such limitations indicate that the philosophy of executive budgeting has extended beyond the preparation period. This problem is not one that is debatable in terms of value, since in each government the institutional factors, influenced by other than budgetary considerations, must determine the desirability of any curtailment of legislative power. This analysis will, therefore, treat with the various national provisions only from a descriptive angle.

The second type of restriction establishes norms and guides for legislative action that is assumed to be independent of any link to the executive's program. Constitutional requirements which were specified for the Reichstag under the Weimar constitution are an example of the infrequent second type.

In general, the legislative bodies that still function effectively in national governments are not subject to a great many restrictions on their fiscal voting. Restrictions of the first category predominate. In the American states a veritable happy hunting-ground for mandatory guides to legislative action is found. Only a few of the first type are noted. A few states extend the executive budget concept to the point of granting some elements of legal status to the submitted proposals. The bulk of the restrictions disregard any links to the budget program that has been submitted and specify the course of action that the legislature must follow. Much of the legal basis for the limitations is direct and to the point; a state legislature, for example, may be required to levy a tax yielding sufficient revenues to finance all voted outlays. The other limitations are

¹ No mention is made here of limitations on the exercise of specific taxing, spending, or public debt creation powers, since they are not marked by outstanding budgetary characteristics or linked to periodic budget program adoption.

inherent in restrictions on general fiscal policy. For example, the prohibition of the authorization of new debts is of course decisive with respect to the balancing problem in that it prevents state legislators from voting planned deficits. It will be necessary to defer discussions of the second type until the provisions of the states are reviewed.

Of the nations that have been surveyed, two distinct groups are noticeable. The first includes Great Britain and British Empire members, which in many respects represent successfully developed forms of democratic government. With them are the growing number of units under dictatorships. In the nations comprising this group it is difficult for the legislature to change at its will the program submitted by the executive. In this group executive budgeting reaches its highest development in the adoption stages.

The second group, represented by the United States, give to their legislative bodies a relatively free hand in voting the fiscal program. The executive's function is largely advisory and there are few limitations on what the lawmakers may do on their own score.

A review of the conditions in both categories of nations follows.

Restricted Group

Great Britain

In Great Britain a long historical development of the struggles for the balance of power between the Crown and the Parliament has led to the present situation.²

The fiscal experience that has been enjoyed by British governments indicates that the result of the developments has been beneficial. With respect to the question of increases or new items added to the executives' estimates, nominally no request may originate in Parliament unless the consent of a Privy Councillor acting for the Crown is obtained. In actual practice this means that only the government makes the proposals for new or increased expenditure. This bars additions to the submitted estimates and the introduction of new measures providing for outlays for which the executive has not planned any revenue coverage. The result is summarized in the statement that Parliament may only decrease or delete items. For taxation measures there is a restriction that has the same historical background as the expenditure problems but that does not appear to be as readily linked to a favorable background for budget balancing. No new levies may be introduced except as a substitute for other taxes. The government again acts for the Crown, in whose hands rests the nominal power to propose taxation measures. Actually the restrictions are not necessary, since through the

² Jéze-Neumark (*op. cit.*, pp. 305-308) and Shirras (*op. cit.*, pp. 977-80) devote a great deal of space, as do some other treatises which stress the political aspects of budget problem, to the historical development of the fiscal powers of the British Parliament.

strong tax influence exercised by the Chancellor in his budget speech the government seldom encourages or leaves room for individual tax proposals. In revenue matters it is possible to summarize by saying that measures must originate with the government.

It is interesting to note the manner in which the restrictions operate, especially since they are not based, as is the case in New York State, on specific constitutional provisions.

A commentator has noted:

The idea of the limitation of financial initiative as a prerogative of the Crown is based only on a Standing Order of the House of Commons. By rescinding the Standing Order, the House might tomorrow restore the right of initiative in taxation to the generality of its members.³

Another source shows how private members of the House can even more easily vote for an increase of expenditures through a simple Parliamentary fiction. A member may make a motion to reduce an item, speak on an increase, and the motion, if passed, is in favor of an increase.⁴

On the same order is the practice indicated in this statement referring to the procedures for the assertion of legislative initiative.

The House can make its will felt on the Government's programme; . . . It also can not merely reduce but indirectly increase expenditure. It can refuse a demand by reducing the vote merely by a nominal amount or refusing to pass it altogether on the ground that it believes the provision to be inadequate. The Government, then, can bring in a revised proposal, and when the House in this way dictates an increase of expenditure its power is the reverse of negative or it is indirectly positive.⁵

The restriction, if any, can hardly be said to be iron clad from a legal point of view, although it works admirably.

Some explanations are necessary. One of the reasons why the government's policy on expenditures is not usually modified is the fact that expenditures are taken as a matter of confidence, and that any serious disagreements with respect to the revenue estimates may result in a resignation of the government. The political structure of Parliament tends to preclude any major reversal of the government program.

Even though the fiscal plan of the Chancellor is that of his Ministry and its party, it is not meant that no criticism is allowed. Party organization allows the "government to have a certain freedom to accept criticism and even defeat without considering the question of its existence involved."⁶

³ Young, *op. cit.*, p. 47.

⁴ Hills & Fellows, *op. cit.*, p. 3.

⁵ Shirras, *op. cit.*, p. 980.

⁶ Young, *op. cit.*, p. 64.

This liberty applies to questions of taxation only, not to questions of expenditure. In the case of a tax Parliament can obtain money in an alternative way, but if the expenditure plan fails, and the government is refused the right to spend money for a specific purpose, there is no alternative and the matter requires the drastic solution that a resignation achieves.

Of greater significance than these legal and procedural matters is the immeasurable interest of the members of Parliament in upholding the tradition of executive budget powers and the government's reputation for sound fiscal policy. A recent observer has discussed the British Parliament in relation to fiscal legislation in the following terms:

Parliament indulges in no impulsive legislation and is as eager to maintain a balanced budget as any orthodox economist. Though it is not checked by court or Constitution, Parliament is restrained by custom, by tradition, by a sense of responsibility, by the instinctive moderation of the British people, to whom it is accountable.⁷

Another student of British finance has correctly appraised the real value of the British restrictions on financial initiative. He notes of the system that it

protects members of the House of Commons from improper pressure by their constituencies, the House itself against appropriation of public funds for the benefit of individual constituencies, and lastly the taxpayers.⁸

There is an interesting example of the British Parliament's willingness to subordinate its own powers in order to facilitate the government's fiscal policy and its effectiveness. The periodic revision of income tax and tea duty rates has already been described, as have been the efforts made to prevent avoidance of the new rates through anticipation and hedging. Prior to 1909 custom permitted the government to impose the new rates immediately after the budget speech was read, trusting that Parliament would subsequently pass the Finance Act and legalize the new rate structure. In 1909 the Courts upset the arrangement. For the next few years special acts of Parliament allowed the old practice to proceed from year to year. In 1913 the Provisional Collection of Taxes Act provided whenever a resolution is passed by the Committee on Ways and Means, calling for the variation of any tax as outlined in the budget speech, and containing furthermore, a statement that it lies in the public interest, that the resolution receive statutory effectiveness. The resolution has the same legal effect as if passed by Parliament. With renewals the resolution may remain in force for four months. Effective administration of the customs, excises, and income taxes which the Act covers has been greatly facilitated

⁷ N. Y. Times, March 8, 1936, Harold Callender, Magazine Section, p. 9.

⁸ Shirras, *op. cit.*, p. 980.

by Parliament's willingness to support the government's fiscal program by making it operative without delay.

The members of Parliament balked at one attempt to place a rigid limitation on their budgetary policy. Mallet and George note that when the Snowden budget of 1930-31 had to cope with the large deficit realized in the 1929-30 fiscal period which had just closed, Snowden proposed:

to include in the Finance Bill a clause to the effect that, when a budget deficit was realized, a corresponding addition should be made in the succeeding year to the provision for debt redemption unless Parliament otherwise decided. Mr. Churchill remarked that it was a pious sentiment which might just as well find a permanent resting place upon the Statute Book; but purely illusory in that nothing could abrogate the power of Parliament to deal as it pleased with the finances of the year. It was in fact disregarded the very next year.⁹

Only occasional references to Parliament's inefficient practices or its unwillingness to assume certain duties are noted. They hardly detract from the reputation that the British Parliament has earned in recent years and upon which the otherwise ineffective limitations on Parliament initiative stand. In some quarters it is stated that British parliamentary procedure should be modified in the interests of real economy. Young, who criticizes in this manner speaks of the "undue veneration for the sacred principles of the Constitution." Elsewhere he notes:

It results that much of what is of most historical interest in the procedure of the Commons is now of least practical value. Much that was not necessary while the House was struggling to control the expenditures of the Crown, now that the House is itself the motive force of spending, is needed and is left undone.¹⁰

It is difficult for those familiar with the course of fiscal legislation through the Parliaments of other democratic governments to share this critical view.

The Empire Group

In the matter of expenditures all the other members of the British Empire group adhere to a policy based on initiative rights restricted to the government.

In Australia only a Minister of the Crown may submit proposals for raising money or for new expenditure items. Increases in expenditure items cannot be initiated by members of Parliament and are seldom voted. As a matter of procedure the bulk of the revision is made by the legislative committee which exercises its power to reduce or delete items. The budget is passed by the House in plenary session in the same manner in which

⁹ Mallet and George, *op. cit.*, p. 282.

¹⁰ Young, *op. cit.*, p. 52.

it is issued from the committee. As in England the government resigns if defeated on a matter of expenditure. Australia has successfully operated a scheme involving planned deficits but has not experienced an extreme or uncontrolled spending orgy.

Among the Dominions, Canada, British India, and New Zealand also restrict their Parliaments. In the first mentioned country expenditure estimates may be reduced or deleted but may not be increased. New items are prohibited unless they are government-sponsored. There exist no restrictions, however, on the nature of the action that Parliament may take with regard to revenues.

In the national government of India interesting restrictions grow out of the peculiar status of that unit of the Empire. Expenditures, chiefly those for the maintenance of the government and for defense, are not submitted to Parliament though they are subject to legislative review. The Parliament may decrease or reject other items but may not raise them, introduce new ones, or change the destination of any item. Shirras describes the restricted scope of the Indian Parliament's budgetary activity which is embodied in the 1935 Government of India Act (Secs. 33 and 78). According to him:

... sums required to meet expenditure are divided into three categories: (1) those which are open to discussion but are not to be submitted to the vote of the legislature, (2) those which will be submitted to the vote of the legislature; and (3) proposals, if any, which the head Executive (i.e. the Governor General in the case of the Federation) may regard as necessary for the fulfillment of any of his special responsibilities. In the first category are included (1) debt charges; (2) the salaries and allowances of the head of the executive, and the salaries and pensions payable to certain members of the Civil Service, and certain other sums such as provident and family pension funds, and (3) expenditure for the purpose of the discharge by the Governor-General of his functions with reference to defence, ecclesiastical affairs and to external affairs. . . . All other estimates of expenditure embodied in the budget are subject to the vote of the legislature, except in regard to any demand which is necessary for the fulfillment of the special responsibilities of the head of the executive. Most of the heads of expenditure not subject to vote would not even in the United Kingdom be subject to an annual vote in Parliament, and the inclusion of those which do not fall within that category is justified as a matter of reasonable precaution in order that responsible government itself, as the Joint Parliamentary Committee has pointed out, may be a reality in the future.¹¹

It is obvious that these restrictions are related to the fact that India's chief executive is not popularly elected and is not

¹¹ Shirras, *op. cit.*, pp. 963-964.

subject to popular recall, and hence must have final power with respect to obtaining the funds needed to execute the government's program. It is evident, therefore, that special factors, operative only in colonial empires, are responsible for the restrictions on India's Legislature. It is a unique example of a device to discourage any legislative-inspired economy. As a matter of procedure another authority notes that the "members are required to confine themselves to the discussion of the budget as a whole or any question or principle involved therein."¹²

In New Zealand the usual prohibition on new items and increases is noted. A further restriction is found in the fact that a committee on supply may not change the conditions or alter the destination of expenditure votes. The initiative in tax matters is also restricted to the government.

Finally in the Irish Free State we note that the usual privilege of moving for new expenditures or of imposing new or increased taxes rests in the hands of the Minister for Finance.¹³ As a result Deputies may only omit or reduce expenditures or may decrease taxation. A motion to decrease taxation would be considered a matter of confidence since the Minister for Finance is a member of the Chamber and of its Executive Council. Conflicting decisions, however, of the Minister for Finance and the Chamber are not likely to occur.

The British group may definitely be linked to the systems that leave the determination of fiscal policy to the government. Except in India the ultimate power of Parliament must be sought in its ability to vote down the government, not in its reversal of the program that the existing government offers. One is inclined to appreciate the advantage inherent in the British practice in terms of fiscal efficiency, but to concur with Shirras who notes that "the English principle, by which the Minister's will must prevail in the passage of the Budget, though the legislature or the Ministry must resign, is not suitable to the different conditions in the American Republic."¹⁴

Other Nations

Italy, Japan, Rumania, Yugoslavia, and Soviet Russia are the countries that have also placed restrictions on legislative action. This group tends away from the democratic ideal and the explanation of the restrictions is found undoubtedly in the general trend toward the breakdown of parliamentary government rather than in any special recognition of budgetary needs.

In Italy the Chamber of Deputies can not increase expenditures or decrease revenue without the prior sanction of the government. It also acts upon the recommendation of the *Giunta*. The recent steps towards the abolition of the Chamber

¹² Chand, *op. cit.*, p. 83.

¹³ The right of initiating expenditure is reserved to the Executive Council not only by Standing Order 101, but also by Article 37 of the Constitution. O'Connell, *op. cit.*, p. 31.

¹⁴ Shirras, *op. cit.*, p. 1000.

will destroy its nominal budgetary powers. In Japan it is reported that legally (as well as *de facto*) the power of the Parliament in budgetary matters is small. The League experts stated a few years ago:

Members of the two Chambers have no right of initiative in regard to expenditure. Parliament may only propose reductions in the Government's estimates of expenditure. At the same time, by virtue of powers conferred on the Emperor by the Constitution (i.e., prerogatives relating to the command or organization of the armed forces, to the framing of regulations for the Civil Service and the fixing of officials' salaries), Parliament cannot abolish or reduce, without the consent of the executive authority, military expenditure which it has approved in the budget for the previous year.¹⁵

In Rumania a new tax measure must originate from the government. This enables the Chamber merely to decrease or omit items. Yugoslavia, another of the quasi-dictatorship group, gives the members of Parliament power only to initiate proposals for the reduction of expenditure.¹⁶

In Soviet Russia the Central Executive Council may not propose new items without the consent of the Sovnarkom. Old items may be increased in addition to the usual ability to restrict or delete.

In the Argentine Republic an interesting clause, undoubtedly linked to other than purely fiscal considerations, grants to the Chamber of Deputies the right of initiative only in matters concerning the levying of taxes and the recruiting of troops.¹⁷

In the other countries there are many legislatures (considered without reference to any limitations on the powers of one particular chamber of a bicameral body) that may make any change in the budget they see fit. There are, however, in one or two cases traditional restrictions or links to matters of confidence which tend to prevent the legislature from going over the head of the government. For example, in Belgium, although the Chamber may make any changes it wishes in either revenues or expenditures, it is a practice for the government to exercise all initiative with respect to new fiscal items. In Poland it is indicated that "both the Government and members of Parliament enjoy the right of initiative. In the case of members of Parliament, however, this right is, in practice, restricted."¹⁸ Recent developments indicate that it might be correct to include Poland in the group discussed immediately above.

In France, although the Chamber of Deputies may make any changes it sees fit in the proposed budget, the government has

¹⁵ *L. of N., Tech. Comm., op. cit.*, Vol. II, p. 81.

¹⁶ *Ibid.*, Vol. II, p. 138.

¹⁷ *Ibid.*, Vol. III, p. 56.

¹⁸ *Ibid.*, Vol. II, p. 107.

resigned frequently on matters of budgetary policy.¹⁹ However, it is not necessary for the government to do so.

It is evident, even to the casual observer, that there is no tradition in the French legislature for voting balanced budgets or for respecting the Executive's interest, if any, in sound fiscal policy. The restrictions would be ineffective unless they were constitutional since the French are frequently modifying basic budgetary practices to facilitate the solution of temporary political or fiscal problems. In the fall of 1934 Premier Doumergue proposed that the French adopt the British practice and that the government alone be given the right to propose new or increased expenditures.²⁰ The suggestion was a feature of a basic constitutional reform, and appears to have been defeated. The desire of the Chamber to cooperate in passing the budget for 1935 prior to the beginning of that fiscal year influenced it voluntarily to curtail its liberty to introduce new or bigger appropriations. On November 15, 1934, the Chamber withdrew the privilege of its members to refer expenditure proposals to the Finance Commission or to reserve a chapter for further discussion.²¹

This reform was passed not only for the then pending budget discussion but as a reform of indefinite duration. Apparently the Chamber has since repealed this measure. It should be noted that the reform restricted only the right of initiative of the members on the floor and did nothing to curtail the powers of the influential Finance Commission of the Chamber. The Commission was relieved of any amendments to its decisions, but it was in turn left unlimited freedom to act as it pleased in financial matters. In spite of these recent efforts of the governments to clear the path of their particular programs it is evident that France must be listed with those jurisdictions in which the executives are not assured that no major attacks on their fiscal programs can take place.

Unrestricted Group

Denmark, Hungary, The Netherlands, Sweden, and the United States are but a few of the nations that place no basic legal restrictions on the legislature in budgetary matters. Germany and Greece as republics must also be included. In a few, however, there have been proposals to facilitate the maintaining of economy programs by restricting the legislature. There are provisions that tend to discourage legislative initiative by requiring votes in excess of majorities. Other similar minor limitations may be noted. It is also advisable to consider some of the special expenditure provisions as a feature of budgetary policy. A proposal

¹⁹ In 1933 several governments, including those headed by Premiers Boncour and Daladier, fell because of disagreements on financial matters.

²⁰ N. Y. Times, Sept. 25, 1934. The Premier was reported as wanting to give the French Finance Minister the assurance enjoyed by the British Chancellor of the Exchequer that his budget will not be changed and unbalanced by Parliament.

²¹ N. Y. Times, November 16, 1934.

requiring the voting of a previous year's deficit as an expenditure in the current period is easily linked to a policy of preventing recurring and piled-up deficits. It certainly limits the feasibility of planning deficits.

United States Federal Government

The Congress of the United States is not required by constitutional mandate, self-imposed statutory provision, tradition, or custom to limit its own desires regarding budgetary policy. The 1921 basic act, consistent with a historical policy regarding the separation of powers, failed to check Congress.

A few isolated efforts or recommendations to restrict federal lawmakers appear to have made no headway. The "Special Committee on Federal Expenditures" of the United States Chamber of Commerce considered the removal to the President of the power of initiative in matters of taxation. The suggestion was in reality an effort to put on the President the onus of finding new revenue sources for any expenditures recommended by him. The Committee's report suggested checking the Executive rather than depriving Congress of any power over revenue matters.²² Of a more drastic nature was the 1935 proposal of Senator Tydings. His measure, which was not seriously considered by a Congress sympathetic to a loan-expenditure recovery program, would have made the United States Congress, with respect to budgetary matters, even more bound to a fixed course than are some of the state legislatures. The Senator's own description of his plan to the press needs no elaboration.

The resolution provides that at the beginning of each session of Congress the President shall transmit to it an itemized account of the estimated revenues to be received during the coming year. Accompanying this revenue list shall be one budget in which the estimated revenues are allocated in detail to the various departments and branches of the government.

If Congress decides to increase the amount allocated to any department, it must take the amount of said increase from some other department or departments. No other legislation can pass both houses until the budget has been adopted by the Congress.

In the event that Congress wishes to make appropriations in excess of the estimated revenues the resolution requires that new taxes must first be provided to raise money for said excess appropriation.

In the event that Congress wishes to make excess appropriations and wishes to borrow the money for such appropriations, then the resolution requires that in the act appropriating said money the Congress shall lay the taxes necessary to liquidate the loan in a period not to exceed fifteen years.

²² *Report of the Special Committee on Federal Expenditures. Arguments in the Negative, op. cit., p. 15.*

In times of war and for one year after its close the provisions of the resolution do not apply.

If the resolution passes Congress and is signed by the President the Federal budget will automatically be kept in balance at all times. The resolution closes up the holes in the budget law under which Congress now functions and which permits the Congress to appropriate large sums of money without providing where the money is coming from.²³

The proposal, if accepted, would have made a planned loan-expenditure program impossible.

There has not been much interest in curtailing the powers of Congress in expenditure matters. The deficits we have had cannot be traced to Congress' failure to meet any administration's interest in balanced budgets.

Writing in 1927 Willoughby pointed out that actual results in the legislative treatment of executive expenditure proposals were the same in the United States as in England. He observed that Congress had always adopted the President's financial program without substantial change. There were numerous instances of shifts within the budget program, but none of a major overthrow or disturbance of the program.²⁴ Willoughby saw no need for adopting this feature of British policy. It must be stated that he did not have the benefit of Bonus Bill history as a major example of Congressional spending with executive disapproval. If the test of experience is valid, events in the early months of 1937 indicate that the Supreme Court might be beneficially curbed in its unbalancing powers.

With the exception of Great Britain and its followers, few of the true democracies have placed many restrictions in the path of the legislature. In Switzerland the members of the Federal Assembly have full powers. The lower House of the Dutch Parliament is similarly unlimited. In some of the nations the legalized provisions give no indication of the real state of affairs.

Germany

Germany's attitude towards this problem, during the life of the Republic, is of interest. The system, which provided many norms for executive and legislative action, did not place any restrictions that were effective in preventing the legislature from unbalancing the budget proposals. Neumark indicates that the Germans considered the problem and also had experience with legislative restrictions in the *Laender*. Prussia, Thuringia, and Danzig had provisions requiring the legislature to provide specific financing measures for all outlays that they initiated.²⁵ It

²³ N. Y. Times, May 5, 1935.

²⁴ Willoughby, *op. cit.*, p. 144.

²⁵ Neumark, *op. cit.*, p. 108.

appears that the Republic's early leaders could not comprehend the lack of initiative power of the British Parliament. They referred to the system as one of financial dictatorship. Another reason which the Germans foresaw, with almost prophetic foresight as far as their own country was concerned, was that any measures limiting the executive or the legislature are useless as long as there is no strong anti-government opposition party.

The inflation did encourage one restriction that may be linked to a limitation of the legislative power freely to incur deficits. It is the only instance of its kind found in a national government. In Germany, according to Paragraph 75 of the budget law, a deficit was to be carried as an ordinary expenditure, at the latest in the second following fiscal year. The Germans wisely allowed a year to intervene before the deficit had to be carried as a mandatory outlay. They undoubtedly did this because their system, unlike that of England, did not enable them to know the size of the deficit when submitting the budget program. However, the Germans followed the New York State practice and in some years estimated the deficit and carried it over into the next year. Even so, it is interesting to note that the students of fiscal affairs of Germany have made the same claims as have been made in New York, namely, that this requirement for the carrying over of a previous year's deficit tends to obscure the real accomplishments during the fiscal year proper. The same German law required the use of a surplus for the redemption of debt or the liquidation of loan-financed deficits in the next period. Surpluses, therefore, were to be carried as revenue in the second following financial year. France has a similar requirement regarding surpluses, and parenthetically it may be noted that the surpluses have not been used as is required in that country. Since the suspension of the Weimar Constitution and the beginning of the National Socialist practice of introducing fiscal measures by executive decree, these minor limitations on Germany's Reichstag are of only historical interest.

No attempt has been made to record the various practices that place minor obstacles or variations in the path of legislative attempts to change or supplant executive budget plans. These measures may be of importance under certain conditions of opposing party strength but are of insufficient general interest to be worthy of further study. Americans are familiar with similar devices in connection with the overriding of vetoes.

Summary

An interesting phase of the development of executive budgeting is discernible in the nations comprising the British Empire. With some procedural exceptions the Parliaments of Great Britain, Australia, British India, Canada, the Irish Free State, and New Zealand can only decrease or delete items in the expenditure programs proposed to them. The right to initiate

appropriations, in addition to those covered in the budget bills, is also denied. In a vast area of English-speaking democratic governments there are statutes and traditions that strongly limit the fiscal legislation that may be promulgated and that does not originally appear as an executive proposal.

Among the nations whose practices are comprehensively surveyed in this study, Italy, Rumania, and Soviet Russia also concentrate in executive hands the power to initiate budget programs. Other nations can be added to this group. The limitations on the legislatures of these jurisdictions do not necessarily represent concessions made specifically for fiscal legislation.

A small group of nations, including Belgium and France, offer minor variations in practice which warrant their segregation. The practice of governmental resignations tends to assure to a Cabinet that is in office some respect for its fiscal program—as long as it remains in office.

In sharp contrast to the two first-mentioned groups stand a number of jurisdictions in which the lawmakers are virtually unchecked in their power to revise the submitted budget program or to initiate measures of their own choosing. Among the leading nations of the world the United States stands foremost in this group. A few remaining strongholds of democratic governments, including the Scandinavian countries and The Netherlands also present examples of unrestricted legislatures. Two nations that have in recent years abandoned democratic governments, namely Germany and Greece, may be listed with this group on the basis of their previous practices. Of all the nations that have been studied, Germany alone offers an example of a mandatory policy imposed on the legislature. There was no injunction against an unbalanced budget in any jurisdiction.

There have been many instances of proposals to limit legislative powers in the governments where effective limitations are at present absent. There is no clear indication that the restrictions tend to limit deficits; they do, however, concentrate responsibility for the budget program and foster the unified and comprehensive approach to financial problems that is associated with executive budgeting.

In general, whether the legislature be restricted or not, there remains the imperative necessity for legislative processes to place the importance of a well-timed and comprehensive view of fiscal problems before the lawmakers. In the federal government this appears to be of paramount importance. With regard to the national practices noted above, it is possible to generalize that harmony of executive and lawmaker on fiscal policy is desirable, but in the absence of a breakdown of democratic processes it can be achieved only through mutual respect and a traditional common interest.

CHAPTER XXXII

LEGISLATIVE POWERS IN BUDGETARY MATTERS; STATE GOVERNMENTS

Now that the Weimar Constitution and the German Republic have vanished there is not a single nation in which the legislature is specifically directed towards voting a balanced program or towards considering the liquidating of deficits. There are, however, few American states that fail to do so. On the other hand, only a fraction of the forty-eight commonwealths links the mandatory duties of the lawmakers to the programs that the executives submit. The feeling that this type of limitation extends executive budgets to financial dictatorships must be widespread. It may be said of the states that mutual respect between executive and legislature is not always present and that a common interest in a similarly orientated fiscal program is dictated by necessity rather than tradition. In any event, the majority of the states have tended to follow the federal government in avoiding any similarity to the British-type practices. The few states that have such limitations are hence noteworthy.

Restrictions on Revising Executive Budgets

The only states that have effective restrictions on changing executive proposals appear to be Maryland, Nevada, New York, and West Virginia. This is not a complete list of the so-called "constitutional budget" states. Some, including California and Missouri, are omitted.

Maryland's Constitution provides that its legislature may amend the budget bill submitted by the Governor only by striking out or reducing items.¹ The Constitution carefully provides that the exemption from executive revision of outlays for the legislature itself, the judiciary, and the public schools, three functions that are immune from any binding executive pro-

¹ The general assembly shall not amend the budget bill so as to affect either the obligations of the State under Section 34 of Article III of the Constitution, or the provisions made by the laws of the State for the establishment and maintenance of a system of public schools, or the payment of any salaries required to be paid by the State of Maryland by the Constitution thereof; and the General Assembly may amend the bill by increasing or diminishing the items therein relating to the General Assembly, and by increasing the items therein relating to the judiciary, but except as hereinbefore specified, may not alter the said bill except to strike out or reduce items therein, provided, however, that the salary or compensation of any public officer shall not be decreased during his term of office; and such bill when and as passed by both houses shall be a law immediately without further action by the Governor. *Md. Const.*, art. III, §52 (as amended).

posals, shall be maintained. Another item is hardly in the interest of economy and retrenchment, namely, the provision that no salaries may be reduced during a State employe's term of office.²

Maryland is not content with restricting any upward revision of the Governor's program. It tends to encourage careful consideration of supplementary items by a provision specifying that appropriations outside the bill shall be limited to some single work or purpose. It may be noted, furthermore, that Maryland attempts to assure a balanced program through insisting that special appropriations must provide the revenue necessary to pay the appropriations thereby made.³ The Maryland amendment, passed in 1916, was the first of its kind in this country.

In West Virginia the legislators may amend the bill submitted by striking out or reducing items but may not add new ones or increase them.⁴ There is specific reference to the disapproval of deficits. The objectionable salary clauses are also noted.

In Nevada the statutes provide that the legislature may not modify a budget bill except to strike out or reduce items. It is also provided that the salary or compensation of any public officer shall not be increased or decreased during his term of office.⁵

There is also a requirement that any appropriations voted outside the regular budget must be in a separate act, and must be limited to some single work or purpose. The Nevada provision, lacking constitutional recognition, may be revised by the legislature.⁶ As in Great Britain, however, it is possible that traditional usage offers a strong bar to change.

New York's constitutional amendment is the most recent one that aims at protecting the Governor's executive budget program. The relevant passages read:

The legislature may not alter an appropriation bill submitted by the governor except to strike out or reduce items

² As indicated below, Oklahoma similarly provides constitutionally for a prohibition of legislative salary readjustments.

³ The legal restrictions dealing with supplementary items are discussed below. The complete set of provisions dealing with the budget policy of the Maryland legislature is presented in order to facilitate a comprehensive view of the problem.

⁴ The Legislature shall not amend the budget bill so as to create a deficit but may amend the bill by increasing or diminishing the items therein relating to the Legislature, and by increasing the items therein relating to the judiciary, but except as hereinbefore specified, may not alter the said bill except to strike out or reduce items therein: *Provided, however,* That the salary or compensation of any public officer shall not be increased or diminished during his term of office; and such bill when and as passed by both houses shall be a law immediately without further action by the Governor. *W. Va. Const.*, art. VI §51, sub-§B, part 3.

⁵ Nev. Stat. (1919), c. 45, as amended.

⁶ Nevada's Constitution, while limiting the acts of the legislature on budgetary matters, does not tie it to the Governor's budget program.

therein, but it may add thereto items of appropriation provided that such additions are stated separately and distinctly from the original items of the bill and refer each to a single object or purpose.⁷

The effectiveness of New York's limitations appears to be of a weak character if they are designed to place in the Governor's hands complete control over the fiscal program. There are merely certain procedural restrictions on items that are initiated by the legislators, and their only effect can be to segregate such items for informational purposes. Without a tradition for executive budgeting, such as is found in Great Britain, the constitutional amendment must fall short of its goal. The Governor's veto power alone gives him some weapon with which to combat legislative efforts to oppose his program. In some of the recent deadlocks growing out of the voting of the budget program the Governor has capitulated.

In connection with the very first budget program submitted after the constitutional amendment went into effect, a serious disagreement arose between Governor Roosevelt and the Legislature. The legislature deleted a number of items in the Governor's program, substituting its own, and attempted to provide for legislative control over the outlays it voted. According to an authoritative discussion of the dispute, the statutes and the appropriation acts greatly enhanced the powers of the Chairmen of the Senate Finance Committee and the Assembly Ways and Means Committee. The commentator notes with regard to the legislative chairmen that "without their approval not a dollar of these appropriations could be made available or expended, and they were thereby placed in a position practically to control the conduct of the respective offices affected."⁸

It is evident from the issues that were presented to the courts when the dispute was adjudicated, that the power of the legislature to revise the Governor's program was only indirectly involved. Mr. Guthrie, whose comments are noted above, summarized the principal constitutional questions presented to the courts for consideration:

- (1) Whether the statutes in question constituted civil appointments by the legislature of its own members in violation of section 7 of article III of the State Constitution;
- (2) if the function or the segregation or expenditure of appropriations after they had once been made by the legislature could be regarded as legislative, then whether its exercise could be delegated to one or several of its own members, to be exercised by them *ex officio* on its behalf but in their own discretion; and
- (3) if such a function

⁷ *N. Y. Const.*, art. IV-A, §3.

⁸ William D. Guthrie, *Constitutional Aspects of Executive Budgets as Illustrated by Recent Developments in the State of New York*. (New York, 1930), p. 35.

was executive or administrative, then whether its exercise could be assigned or committed by the legislature to its own members.⁹

The Court of Appeals of the State construed the acts of the legislature as unconstitutional.¹⁰ The case, commonly referred to as the Executive Budget case, is significant not only for its broad interpretation of the Governor's power in connection with the State's fiscal activities, but in indicating the extent to which disagreements may arise between the executive and the lawmakers. It indicates how absurd it is to presume that minor procedural obstacles such as are provided in the Constitution, will stand in the way of efforts of the legislators to overthrow the Governor's budget program.

It may be noted, therefore, that an executive budget in the sense in which Great Britain understands the term, is not common in our states. The budget proposals of the Governors must rely on some other force than the weight of legal authority for their safe guidance through the legislature.

Legislative Revisions: General

The most common limitations found in the American states do not take the executive budget proposals as a point of departure. They specifically stress the duties of the legislators, assuming that they will act as they please regarding the variable portion of the fiscal program over which the Governor exercises advisory powers. Before proceeding to these, a few other provisions linked to the submitted budget should be kept in mind as possible influences on preventing excessive expenditures, the purpose for which the bulk of the limitations appear to have been imposed. Many of the restrictions that are found deal with items introduced outside the budget bills or after the regular appropriation bill has been adopted. A few restrictions of this kind have already been noted, as in the case of Maryland. The restrictions of this category will be discussed in relation to the problem of supplementary estimates and budgets. Another type of limitation, also noted in New York and elsewhere, encourages careful consideration of items outside the budget by specifying single object appropriations. These also will be treated in conjunction with supplementary items. They are merely obstacles to extravagance, not effective prohibitions on added outlays.

Another type of restriction is seen in Nebraska where the legislature formerly could increase items only by a three-fifths vote of each house.¹¹ This means that the legislature might make appropriations of funds other than those contained in the budget recommendations, but a larger vote was then required to adopt the budget bills proper. There are apparently few of these restric-

⁹ *Ibid.*, p. 37.

¹⁰ *People v. Tremaine*, 252 N. Y. 27, 168 N. E. 817. (1929).

¹¹ *Neb. Const.*, art. IV, §7.

tions, and they are of only doubtful value in preventing a legislative body from overcoming the opposition of an executive. They merely anticipate the common veto over-riding provision.

The majority of the states cannot honestly plan for deficits since they cannot expect state officials to borrow for the financing of needs for which monies other than loan proceeds are not available. Only where there are unlimited borrowing powers can deficits be planned. There are, however, in addition to such indirect requirements, a number of others that are in all respects more direct. They are the constitutional requirements dealing with legislative duties which specifically state that tax revenue must be made available for appropriations. The restrictions usually limit appropriations within the amount of anticipated tax revenue or require that such tax revenues be adjusted to expenditure needs. Elsewhere is indicated the large number of states in which the property tax is, according to constitutional or statutory requirements, adjusted each year to the needs of the state. There can be no doubt that the belief that appropriations and tax yields estimates are comparable quantities must be traced to the usual property tax background. It could not otherwise be so easily explained. In not a few states the balancing status is a triple-guarded requirement. The states cannot borrow, the Governor must propose a balanced budget program, and the lawmakers must not vote appropriations in excess of anticipated tax or similar revenues.

Budget Balancing Requirements: Constitutional

Among states that have such a constitutional provision the much-publicized Kansas fiscal system may be mentioned. There it is indicated that "the legislature shall provide at each regular session for raising sufficient revenue to defray the current expenses of the state for two years."¹²

Michigan's provision is somewhat more specific, and reduces the problem to an annual basis.

The legislature shall provide by law for an annual tax sufficient with other resources to pay the estimated expenses of the state government, the interest on any state debt, and such deficiency as may occur in the resources.¹³

Missouri's Constitution provides that the legislature may increase or decrease budget recommendations in any way it sees fit, except that it may not appropriate from any fund more than the estimated revenue from such fund.¹⁴ This clause recognizes the prevalence of multiple funds and disregards a unitary view of the finances.

Montana's Constitution is even more elaborate in its require-

¹² *Kan. Const.*, art II, §3.

¹³ *Mich. Const.*, art. XIV, §1.

¹⁴ *Mo. Const.*, art. V, §13.

ment of a balanced budget. It provides that

no appropriation shall be made or any expenditure authorized by the legislative assembly whereby the expenditures of the state during any fiscal year shall exceed the total tax then provided for by law applicable to such appropriations or expenditures unless the legislative assembly making such appropriations shall provide for the levy of a sufficient tax to pay such appropriations or expenditures within such fiscal year.¹⁵

An array of the other states discloses several other variations in constitutional provisions concerning the budgetary duties of the legislature.

Nevada's constitution covers deficits, past as well as future.¹⁶ The phrase "other sources of income" can hardly be interpreted to include funds received from the issuance of debt obligations. It will be recalled that Nevada also restricts modifications in the executive budget by statutory provision. Oregon's Constitution takes care to specify that the interest on the State's debt shall be treated as a part of the balanced program.¹⁷ Oklahoma, like Germany, has both a constitutional and statutory requirement. The Constitution directs the legislature to provide by law an annual tax sufficient with other resources to finance the ordinary expenses of the state government for any fiscal year for which appropriations are made.¹⁸ This has been supplemented by a statutory requirement making a similar policy mandatory.

Oklahoma's Constitution (Sec. 56, Art. V) also prohibits the legislature from adjusting a salary or abolishing a position without first enacting legislation declaring invalid or amending the law creating the positions and fixing the salaries of the positions created. This limitation, it will be noted, bears no relation to the Executive's recommendations. In commenting on the provision, the Brookings experts stated that it

should be fixed not in permanent law but in the budget and that discretion in determining whether the salary recommendations of the Governor, contained in the budget and by tentative appropriation bills should be approved or disapproved by the legislature. As a general principle all salaries other than those of the heads of departments and establishments

¹⁵ *Mont. Const.*, art. XII, § 12.

¹⁶ The legislature shall provide by law for an annual tax sufficient to defray the expenses of the state for each fiscal year or whenever the expenses of any year shall exceed the income, the legislature shall provide or levy a tax sufficient with other sources of income to pay for deficiency as well as the estimated expenses of such ensuing year or 2 years. *Nev. Const.*, art. 9, §142.

¹⁷ The legislative assembly shall provide for raising revenue sufficient to defray the expenses of the state for each fiscal year, and also a sufficient sum to pay the interest on the state debt, if there be any. *Ore. Const.*, art. IX, §2.

¹⁸ *Okl. Const.*, art X, §2.

should be fixed not in permanent law but in the budget and appropriation act biennially.¹⁹

The limitation of the legislature's power to deal with any fiscal item is an uncommon but nevertheless objectionable violation of the comprehensiveness principle. The clause under discussion prevented the legislature from reducing the salaries of State employees in 1934 and 1935, and clearly eliminated a large segment of the State's outlays from the usual budgetary control sphere.

South Carolina's Constitution reads:

The General Assembly shall provide for an annual tax sufficient to defray the estimated expenses of the State for each year, and whenever it shall happen that the ordinary expenses of the State for any year shall exceed the income of the State for such year the General Assembly shall provide for levying a tax for the ensuing years sufficient, with other sources of income, to pay the deficiency of the preceding year together with the estimated expenses of the ensuing year.²⁰

While few states can be blamed for difficulties during the depression, South Carolina's experience, as related by a recent commentator, shows that the Constitution is not backed by effective authority.

... for five successive years, 1925-1930, the comptroller general reported a deficit in operations. (Report of the Comptroller General, 1931, p. 4.) These deficits were not so much the inevitable results of adverse conditions as the outcome of an absence of legislative policy and administrative financial control. Appropriations were repeatedly made in excess of revenue provided.²¹

Balanced Budget Requirements: Statutory

It may be possible to link North Carolina's mandatory injunctions, self-imposed by its legislature, to the first mentioned group of states in which lawmakers are bound to the executive's proposals. A provision, included in the 1925 basic Act and readopted in the 1929 revision, provided that the General Assembly may increase any recommended appropriations and may provide additional appropriations for other purposes "if additional revenue or revenues equal to the amount of such appropriations or increases are provided for by corresponding amendment to the budget revenue bill."²² Furthermore, appropriation bills:

shall provide an adequate source of revenue for defraying such appropriation or unless it appears from the budget

¹⁹ Brookings Institution, *Oklahoma Survey*, *op. cit.*, p. 242.

²⁰ *S. C. Const.*, art. X, §2.

²¹ Coleman, *op. cit.*, p. 40.

²² *N. C. Code Ann.* (Michie, 1935), §7486y.

report or the budget revenue bill that there is sufficient revenue available therefor.

The legislature is requested to provide needed revenues, if any, through the medium of amending the Budget Revenue Bill.²³ There is no doubt that North Carolina's legislature is not expected to vote any general deficits.

Wisconsin apparently exceeded all the other jurisdictions in the matter of discouraging any general loan-expenditure philosophy in its legislature. A 1932 innovation is described as follows:

It . . . radically changes the method of computing any general state tax. Instead of a state tax being levied when the appropriations exceed the anticipated revenues, the present law provides for an annual state tax sufficiently large to leave a cash balance of \$2,000,000 or more in the general fund of the treasury at all times.²⁴

The provision then in force limited the use of any available funds in the State Treasury and provided for a safety reserve.

Proposals for Legislative Requirements

Budgetary experts, especially those who thought in terms of pre-depression conditions and problems, favored constitutional limitations on legislative spending in excess of tax yields. The Institute of Public Administration, in its studies of Arkansas and Maine, suggested that the States follow the example of other states alluded to in the foregoing pages. For New Jersey, the experts recommended that:

In its consideration of the budget and the budget bills, the General Assembly, either through the joint budget committee or by amendment or supplement, may revise, alter, increase, or decrease the items contained in the Governor's budget bills;—provided, however, that when it shall increase the total proposed expenditures of the budget, it shall also increase the total anticipated income, so that the total means of financing the budget shall at least equal in amount the aggregate proposed expenditures.²⁵

A similar suggestion was made for Maine.²⁶

²³ The Revenue Bill is defined as . . . a bill containing the view of the Budget Bureau with respect to revenue for the ensuing biennium, which shall be known as the "Budget Revenue Bill," which will in the opinion of the Director and Commission provide an amount of revenue for the ensuing biennium, sufficient to meet the appropriations contained in the Budget Appropriation Bill. *Ibid.*, §7486v.

²⁴ *Report of the Wisconsin State Tax Commission, 1932* (Madison, 1933), p. 26.

²⁵ Institute of Public Administration, *New Jersey Survey, op. cit.*, p. 62.

²⁶ Institute of Public Administration, *Maine Survey, op. cit.*, p. 56.

A recent survey of government practices indicates that experts in political science are also in sympathy with attempts to curb the legislators. One authority feels that:

In the past, state legislatures have been guilty of squandering public funds with little or no regard for the public welfare and the financial limitations in the state constitutions are designed to prevent recurrence of such waste.²⁷

Apparently neither the executive nor the legislature is ever to harbor the thought of general deficit financing. Before turning to a brief analysis of the implications of these provisions a few other efforts at checking legislatures are noted.

Interesting provisions, including those that have several precedents in foreign countries, were proposed for California and Texas as a part of a tax relief plan which did not pass the legislature of either State. The proposed California plan was obviously an undesirable and foolish one, and involved a rigidity in the State's finances which could never be acceptable under any circumstances. The plan described to the voters, who rejected it, was as follows:

To coördinate the program for strict economy in government, it is proposed to amend the Constitution by adding a new section (Sec. 34A, Art. IV) which will limit total appropriations to an amount not exceeding by five per cent the appropriations for the preceding two year period. This limitation is placed upon a biennial basis because the Legislature meets in regular session only at the beginning of odd numbered years. It results in a limit of 2½ per cent per year.

State apportionments for schools are excluded since they are automatically regulated by the number of pupils in average daily attendance. Otherwise, the limitation extends to all types of expenditures. In cases of emergency, the Legislature, by two-thirds vote, may exceed the limitation, but the amount of such excess may not be used to increase the base for appropriations in any future years.²⁸

It is evident from the State's Constitution, from the proposed amendment itself, and from the sponsorship of the plan, that the scheme was part of a property tax relief measure. Seldom, however, have there been attempts to cripple the State to such an extent as a feature of a drive to benefit a particular class of taxpayers. The constitutional clause, which was successfully opposed, provided that the Board of Equalization levy an ad valorem tax on real estate if the legislature did not furnish adequate revenues.

The text of the proposed amendment indicates the manner in which the property tax relief was to be sought. Such efforts

²⁷ W. F. Willoughby, *Principles of Public Administration*, (Washington, 1934), p. 204.

²⁸ *A Plan for Tax Relief, Senate Constitutional Amendment No. 30.* (Sacramento, 1933), p. 10.

at relief through abolition, restriction, or prohibition of state property taxation, and rate limitations or exemptions are not unusual, but a desire to limit all state outlays by reference to the appropriations of a preceding period is fortunately not widespread.

Sec. 34a. Appropriations from the general fund of the State for any biennium exclusive of appropriations for the support of the public school system, shall not exceed by more than five per centum the appropriations from such fund, exclusive of such public school appropriations, for the preceding biennium unless two-thirds of all the members elected to each house of the Legislature vote in favor thereof; provided, that no amount appropriated in excess of such five per centum shall become a part of the base for determining the maximum appropriations for a succeeding biennium. Should the appropriations in the budget act for any biennium exceed the limitations herein prescribed and such budget act be not passed by such two-thirds vote, the several items of appropriation therein shall be deemed reduced by that percentage which the excess amount of appropriation bears to the total appropriation. Should the prescribed limit for any biennium be exceeded by reason of any other appropriation or appropriations from the general fund, then the appropriation first passed by the Legislature without such two-thirds vote, which exceeds such prescribed limitation, shall be deemed reduced by the amount of such excess, and all other subsequent appropriations from the general fund not passed by such two-thirds vote shall be void. Nothing herein contained shall prevent the Governor from vetoing any bills or reducing any appropriation therein or any appropriation reduced as herein provided.

Not more than twenty-five per cent of the total appropriations from all funds of the State shall be raised by means of taxes on real and personal property according to the value thereof.²⁰

While the arbitrary tie-up of the outlays of one period to those of a preceding biennium can on no grounds be defended, the pro rata decreases in the appropriations were a feature, as will be shown below, of the policies of many states. No jurisdiction, however, placed the drastic economy measure in its Constitution. Perhaps the best explanation of the proposed amendment lies in the final clauses. Not only the property tax's proponents, but now its opponents, are attempting to continue to clutter the various statute books and constitutions of this country with rigid and ill-advised budgetary requirements.

A proposed Texas amendment was also unique. According to its provisions, state taxes and expenditures were to be limited

²⁰ *Ibid.*, p. 16.

during any biennium to \$22.50 per capita of the population.³⁰ The amendment, which was opposed by educational interests and was defeated, would have resulted in a most absurd piece of mandatory budgetary procedure. No regard for any but tax limitation interests would have motivated such a proposal.

Anti-Deficit Funding Requirements

It has already been pointed out, with reference to Germany and a proposed British reform, that a method of restricting the funding of deficits into debt obligations is found in the requirement that deficits be carried as outlays in successive budgets. A mandatory constitutional provision leaves the lawmakers little choice but direct opposition. Tax anticipation financing, however, does afford some opportunity for evasion.

The writer has found eleven instances in which state constitutions make specific reference to the wiping out of any indebtedness that may have been incurred during the biennium or the fiscal year recently closed. There may be others.

Indiana, Michigan, Nevada, Oregon, Utah, Virginia, and Wisconsin all require that the deficit of one biennium appear as an expenditure in the next. This corresponds to their budget period. All of these states must estimate the deficit to be carried over.

Typical requirements are found in Nevada's Constitution,³¹ which provides that "deficiencies are carried in budget for following budget," and in Oregon:

whenever the expenses of any fiscal year shall exceed the income, the legislative assembly shall provide for levying a tax for the ensuing fiscal year, sufficient with other sources of income to pay the deficiency, as well as the estimated expense of the ensuing fiscal year.³²

In Oregon an interesting case growing out of this constitutional provision established the ability of the legislature to place its own interpretation on the rates and taxes that would bring in the needed revenues.³³

In Oklahoma a result similar to that achieved by the deficit carry-over practice is brought about by a requirement that regards the biennium and operates with a fiscal year. It should be noted, furthermore, that according to the terms of the Constitution; the requirement is not mandatory.

Whenever expenses of any fiscal year shall exceed the income, the legislature may provide for levying a tax for the ensuing fiscal year which with other resources shall be

³⁰ N. Y. Times, Oct. 24, 1934.

³¹ Nev. Const., art. 9, §142.

³² Ore. Const., art. 9, §6.

³³ State vs. Multnomah County, 13 Ore. 287, 10 Pac. 635 (1886).

sufficient to pay the deficiency as well as the estimated ordinary expenses.⁵⁴

This gives the legislature power to levy a tax covering deficiencies in the current biennium, and is obviously designed to check the growth or accumulation of deficits.

South Carolina has a constitutional requirement that takes into account the length of its budget period. This State's Constitution states that "deficiencies shall be included as expenditures for the following year".⁵⁵

New York

New York should be included among the states that must balance their budgets, or that require their Governors to carry over their deficits from year to year. It is interesting to note that neither a constitutional nor statutory provision establishes these practices, and this State, like many others, must be listed with those whose budgetary and fiscal policies are dictated by legal debt limitations only. A careful survey of Article IVa of the State Constitution reveals that the Governor must include data showing the financial condition at the end of the year, but Paragraphs D and E⁵⁶ clearly indicate that a surplus or deficit may be shown. Nowhere in the amendment is there any mention of the Governor's duty to include the deficit as an appropriation for the coming period (as in the above-mentioned states), nor is there any indication that the estimated revenue yields must be sufficient to cover the retirement of any indebtedness created because of past revenue deficiencies. The provisions on borrowing influence the State's fiscal policy in a manner that represents an adequate substitute for a specific clause dealing with the matter. Any state that limits tax anticipation financing to the length of the budget period and prohibits long-term funding of deficits must be considered with the group of states that have specific amendments dealing with the problem.

The recent disagreements between the Governor and the opposition-controlled Assembly have led to some accusations that the legislators have unbalanced the Governor's program and that they have knowingly failed to provide adequately for financing the State's needs. As a result of the disputes the Governor made the following recommendation in connection with several proposals for improving the State's budgetary and accounting procedure:

The introduction of the requirement that the Legislature shall not adjourn without adopting a plan for a balanced budget for the following fiscal year and that if it chooses to substitute a financial plan of its own for that submitted

⁵⁴ *Okla. Const.*, art. VI, §12.

⁵⁵ *S. C. Const.*, art. 10, §2.

⁵⁶ *N. Y. Const.*, art. IV-A, §2.

in the executive budget, it shall set forth that plan in an organized and comprehensive form, with an explanation of the manner in which it expects a balance to be achieved.³⁷

Even if this proposal were to be embodied in a constitutional amendment, it would do little more than provide for greater clarity with regard to the responsibility for a stated fiscal policy. The accuracy of the estimates and the true comprehensiveness of the appropriation program cannot be assured; they are nevertheless of supreme significance in an interpretation of whether or not a given fiscal program is a balanced program.

Summary and Conclusions

The array of representative legal requirements that, in addition to borrowing limitations, public opinion, political expediency, tradition, and occasional federal coercion, demand the voting of a balanced budget indicates clearly what the tasks and duties of the legislatures are when adopting budgets. They must not only plan for adequate revenues but must also take steps to correct any past miscalculations. It is essential, therefore, that their procedures and practices recognize the need for keeping their duties in mind, that they provide for efficient allocation of functions and powers, for elimination of useless time lags and above all, for opportunities for enlightened leadership, so essential in fiscal planning.

All democratic governments have found that there are acceptable variations of governmental methods in the treatment of special categories of legislation. The problem under study centers on fiscal legislation. The chapters that follow discuss some of these procedures in an effort to determine those which logically serve the best interests of jurisdictions such as the American states under their present constitutional restrictions. The recent depression must have served to bring out the fact that voting a budget in which appropriations are matched by tax yield estimates is a satisfactory fulfillment of a legal requirement, and on many occasions, little else. There need be no comment on the states except to say that there have been some that disregarded legal requirements. It is necessary only to recall what has been previously said about the revenue estimating problem and how it has been met. A mere numerical balance led many state legislators into a sense of false security. The attempt to carry out the voted programs showed that the legal requirement was only a step in the right direction. Behind the estimates and appropriations must lie a fiscal policy in line with economic realities. No constitution or statute book requires this. No law could deal with such a problem. The misguided efforts of California and Texas taxpayers show the futility of any attempts to do so. The budget problem exists because the legal provisions are for the most part ineffective.

³⁷ *New York State Executive Budget for 1937* 38, *op. cit.*, p. xxx.

CHAPTER XXXIII

LEGISLATIVE ORGANIZATION IN NATIONAL GOVERNMENTS

Bicameral and Unicameral Legislatures

The methods of voting expenditure and revenue items (the latter are usually not exhaustively mentioned in the statutory provisions governing legislative procedures in the American states) reveal several arrangements that influence the voting of a balanced fiscal program. Foremost among these is the fact that legislatures are bicameral and that in many instances the powers of one chamber are not limited. Nevertheless, such devices and arrangements as simultaneous discussion and joint committees have been adopted to facilitate budget voting. In other cases, as in Great Britain, the power over fiscal matters of one of the bodies, the Upper Chamber, has been so reduced as to eliminate the necessity for any consideration of its activities. This is not the case in the American state governments in which the differentiation appears to extend only in a few instances to the question of the initiation of revenue measures and priority of discussion and voting. The problem of adjusting bicameral processes is, therefore, particularly pertinent in the United States.

In the analysis of legislative practices, especially in reference to national governments, no effort will be made to take into account current political realities. The "normal" element in structural organization and the *modus operandi* are isolated for purposes of discussion.

Several of the nations of the world, including Albania, Bulgaria, Esthonia, and Finland, have unicameral legislatures. Republican Spain is also to be included in the list. Finland may be added since in that country both bodies unite for the discussion of budgetary items. The Upper House acts only as a committee of the Lower House.¹ China's legislative "Yuan" was to consist of only one body.² In this list are none of the nations to which one turns for budgetary experience. Yet it is evident that the discussion of fiscal legislation is expedited and facilitated in the

¹ The adoption of the budget by Parliament is regarded as an administrative act. It has not the character of a law, and this is the reason why the budget is not subject to the procedure followed for the voting of laws by the two sections of Parliament.

The draft budget . . . is submitted to Parliament, which consists of a single chamber, the Storting. The Storting is divided into two sections (the Odelsting and the Lagting), and itself appoints a quarter of its members to sit in the Lagting. This division is of no importance as regards the discussion of the budget. It affects only: (1) the voting of laws, and (2) the supervision of the Government's administration. L. OF N., TECH. COMM., *op. cit.*, Vol. II, pp. 90-91.

² Lee Chou-Ying, *The System of Chinese Public Finance* (London, 1936), p. 32.

single chamber countries. The time-consuming debates and the frequent wrangles and deadlocks in their upper houses or the disagreements between houses are definitely removed in unicameral legislatures.

The group of nations that subordinate one legislative chamber when the voting of budget items is involved includes jurisdictions whose budgetary experience is followed with great interest.

In the British Empire systems there tends to be a delimitation of the powers that the upper body, comparable to the British House of Lords, may exercise. Public interest and other phases are concentrated on the practices linked to the deliberations of the Lower Chamber. Only India and the Union of South Africa differ in that the Upper Chamber retains considerable power over fiscal legislation in these units of the Empire.³

The present situation in Great Britain, the result of some major reforms instituted in 1911, may be traced back to the traditional prerogatives of the House of Commons in fiscal matters. The powers of the House of Lords in fiscal matters are only nominal, and may be neglected in the consideration of the voting of the budget. In Australia the power of the Senate is reduced through the requirement that bills imposing taxation or appropriating funds must originate in the House of Representatives. The Senate has no power to amend such bills. It can only return them to the House with suggestions for amendments which the House may disregard if it so chooses. This closely parallels the situation found in Great Britain.

In Canada and New Zealand the powers of the Senate and the Legislative Council, respectively, are nominal, and one may consider that for fiscal matters the legislative practices are based upon a unicameral system. In the Irish Free State a similar concentration of power in the Chamber of Deputies is noticed. The Senate, like the Australian body of the same name, may make only recommendations, which the lower house may disregard. In the Irish Free State such recommendations are further restricted to reductions in revenues or expenditures. The influence of the Senate decreases further by virtue of the permissive power of the Chamber to neglect the Senate's proposals. In the event that the Chamber does not choose specifically to vote down a recommendation the bill is merely delayed for the 21 days after which a financial bill approved by the Chamber of Deputies becomes law.

Nations that have followed Great Britain's practice and by restricting the powers of one House, eliminated some aspects of the problems that bicameral legislatures create include France, Hungary, The Netherlands and Rumania. The power of the Lower Chamber in most of these instances is marked.

In France the priority rights of the Chamber give to the Senate powers only to reduce or remove items; the authority to increase or initiate new items is denied the Upper Chamber. France offers

³ Buck II, *op. cit.*, p. 29.

the observer a chance to see that the power of an upper house may be delimited, not only through such legal devices as the absence of any initiative, but also through the procedural arrangements that bring the budgetary items to the attention of the Senate only at a late date.

The power of the Hungarian Senate is reduced through a system in which that Upper House can only accept or reject the budget as a whole and cannot concern itself with details unless it wishes to overthrow the entire program. Rumania's Senate is totally devoid of any influence on fiscal matters. The Upper Chamber of the Dutch Parliament is similarly restricted. Finally, Italy's Senate, now in the process of being dissolved, never had any effective powers regarding fiscal legislation.

It will be seen that many of the leading powers of the world, including two of the remaining strongholds of democratic governments, are listed above. The same arguments that are advanced in favor of unicameral bodies may be offered in defence of limiting the powers of one chamber.

A few jurisdictions may be classified with the United States as giving no preference to either chamber of the legislature in decisive budgetary matters. Some countries, however, seem to lack the American feature of a powerful upper house. Greece among the other nations appears to allow the Senate and the Lower Chamber to share equally such power and influence as the legislature still possesses over budgetary matters.

It is reported that in Switzerland the National Council and the Council of the State have equal power and authority with respect to fiscal items. In Republican Germany the power of the Council in the preparatory stage has already been noted. Its power in the adoption stage was not very much reduced. There were, however, some provisions that facilitated the government's carrying its budget struggles directly to the Reichstag in the face of a hostile Council.

In Sweden the Lower Chamber has the final power because of the fact that where both houses meet in joint sessions in the discussion of disputed matters the greater membership of the Lower Chamber gives to it a preponderance of voting power. Actually this is a somewhat meaningless provision since the struggle is usually not between chambers but between political parties which may be powerful in one chamber and not in another. It is possible also to include the U.S.S.R. in this bicameral group as far as the legislative processes are of any significance.

Priority Rights

The federal government and the majority of the American states belong to the group that gives only negligible priority rights to the lower chamber. Buck notes that

in the United States the Constitution provides that all bills for raising revenue shall originate in the House of Representatives; but the Senate may propose or concur with amendments as on other bills. This provision, referring only to

revenue bills, has been interpreted from the beginning as applicable also to appropriation bills. The Senate, therefore, does not as a body consider the budget bills, either as to revenue or appropriation until after the House has acted on them.⁴

The comment of another student of government affairs on this problem is of interest:

Though there is no constitutional requirement that the House pass first on appropriation bills, the custom that it shall do so is now firmly fixed. That this custom should continue is necessary in the interest of orderly financial legislation. If a balanced budget is to be attained, the same body which initiates the tax bill fixing government income, should also first consider appropriations and fix government outgo. The Senate is not limited in its right to amend the appropriation bills.⁵

The power of the Senate's Committee on Appropriations should serve to dispel any beliefs that priority rights in the matter of initiation may be of major significance in reducing actual powers.

In case of differences, the House of Representatives does not benefit from some of the Swedish practices noted below. A conference committee in which both chambers are equally represented is formed and the compromises adopted by the conference committee must be approved by the membership of both bodies.

It is evident that the restrictions of important powers of one house of a legislative body is an institutional element that must be taken for granted as a feature of the legislative phases of a budgetary system. As has already been observed, it is favorable for the specific needs of fiscal legislation, if all other factors are so related that a unicameral or quasi-unicameral (as far as budgetary adoption is concerned) legislature is involved. The American states do not show any sympathy towards robbing an existing chamber of any fiscal powers and appear definitely to look for a solution, if any, in the abolition of one chamber. The national practices outlined above are therefore of interest primarily in the analysis of budget questions in national jurisdictions.

Committee Organization

The committee organization of legislative bodies is another element that is of interest with regard to budgetary matters. The situation in the states is indicative of a need for reform. It adds to the value of the descriptive analysis of the other jurisdictions.⁶

⁴ *Ibid.*, pp. 200-201.

⁵ Joseph P. Chamberlain, *Legislative Processes: National and State* (New York, 1936), p. 214.

⁶ Jéze, Buck, and others who have concerned themselves at length with the political and administrative aspects of budgets have given indications of the make-up of committee membership in national units. Only a brief mention of the national practices will be made in this study.

It is an almost universal practice for legislatures to submit the budget to legislative committees for preparation for general discussion. These committees consist either of a restricted number of members from one or both chambers or of one chamber of the legislature in its entirety, acting under special rules which control committee action. The purpose is that the budgetary matters may receive again, during the adoption stage, the concentrated study and care that characterizes some of the earlier preparatory stages. The importance of the committee is enhanced by the fact that finance committees concern themselves exclusively with specific types of legislation. Some influence may be due to the fact that membership often consists of legislators who are experienced and expert. Committee members naturally exercise great influence in general discussion.

In not a few countries observers have noted that legislative committees are more powerful than the executive and the legislature as a whole with respect to the adoption of the fiscal program. American experience indicates that their power is sufficient to influence the nature of the fiscal program. This is true particularly in jurisdictions in which the executive operates with the advice and coöperation of legislative committee members. This tends to insure a greater measure of agreement and conformity with respect to the attitude of the committee towards the program that the executive indicates as his own.

Great Britain and the Empire Group

In Great Britain the House of Commons as a whole acts as a committee when dealing with the various items submitted. The House debates the expenditure estimates when in session as a Committee of Supply. The supply bills are voted by the same membership, acting, however, in its capacity as the Commons. The scheme did not, however, originate with fiscal practices in mind. It has been hinted that the idea is based on an old desire to keep out the King's emissary, thought to be acting as a spy.¹ The comment by Buck and by several British authorities whom he quotes, also tends to support the view that the legislative organization is not the most admirable phase of Great Britain's budgetary system:

The British House of Commons handles the budget, as we have already noted, through the Committee of Ways and Means and the Committee of Supply, both of which consist of the entire membership of the House, numbering more than six hundred. In criticizing the tax proposals of the Cabinet and in rejecting or reducing them, the Committee of Ways and Means, says Muir (*How Britain is Governed*, p. 255), "is a suitable body for the purpose: it is a committee of the whole House, but the whole House is interested in the taxes that have to be paid by the whole community, and therefore the discussions are real discus-

¹ Henry Higga, *Financial Reform* (London, 1924), p. 85.

sions." But as much cannot be said for the action of the whole House when it switches to the Committee of Supply. It is then hampered by the "outworn rules of procedure in Supply," by the political character of financial criticism, and by the lack of information for parliamentary debate on expenditures. Davenport remarks (Parliament and the Taxpayer, p. 116) that "the House of Commons pursues national economy with the same rules of procedure it used when disputing with Kings." He goes on to say (p. 127) that the rules of today are those originated in the seventeenth and early eighteenth centuries. "It was in those days considered the first duty of all patriotic Parliament men to delay, postpone, or obstruct the royal demands for money, and their rules of procedure were ingeniously devised with that end in view. Yet time is still wasted at Westminster today by conforming to these ancient rules, albeit there is no such distrust, financially, of the executive power, but, on the contrary, an advantage in dealing expeditiously with the increasing volume of Government financial business." In the development of the party system, parliamentary debates on the budget became less financial and more political until, as Davenport puts it (p. 133), financial criticism almost disappeared. Today, when the opposition chooses the supply proposals for discussion, which it has the privilege of doing, it "selects the subject which is the most likely to combine an attack on the government." Hence these proposals are debated from the viewpoint of politics rather than finance, and an adverse vote in the Committee of Supply is equivalent to a vote of want of confidence. The Select Committee on National Expenditure of 1917-18 maintained that the Committee on Supply was without adequate information as a basis for criticizing the expenditure estimates.⁸

The Commons sitting also as a Committee of the Whole concerns itself with appropriation bills. The same body, sitting as a Committee of Ways and Means, concerns itself, following the submission of the budget speech, with the revenue measures that have been proposed and with the continuing expenditure items in the Consolidated Fund bills. The committee made up of selected members has no policy-making powers.⁹ It acts as an advisory body and handles matters of detail. Young, whose critical approach to the British practices is well known, feels that the

⁸ Buck II, *op. cit.*, pp. 203-204.

⁹ When the British Estimates are presented to the House of Commons, they are, since 1912, examined by a Standing Committee of the House, known as the Estimates Committee. The Committee cannot deal with the policy of the Government as embodied in the Estimates, but it has dealt with the administrative methods of carrying out that policy. It has also dealt with such questions as to the departmental methods of framing the Estimates, as to the Treasury's control over them, as to the causes of increased estimates for similar services over a number of years, and as to the arrangement of the Estimates. O'Connell, *op. cit.*, p. 16.

work of adequately checking estimates is too much for the House of Commons as constituted. Small matters are overlooked and large matters become party questions by which the government stands or falls. He claims that the entire procedure appears to be controlled by rules and customs that treat with party and opposition obstructionist tactics. He concludes:

A more unsatisfactory state of affairs could hardly be imagined. It reduces the whole laborious process of the control of expenditure by the House to something of a farce.¹⁰

In general this legislative element of the British system is not accorded the usual and obvious praise that other elements deserve and receive.

The British Empire units follow the home country in their committee procedures. In Australia, Canada, and New Zealand almost identical internal organization of the legislative committees is found. In India there is some indication that committee and other arrangements vary somewhat from the usual British pattern. In the Irish Free State a somewhat lesser use of the device of the Committee of the Whole is noted.

Other Nations

There are totally different committee classifications on the continent. They are best represented by the methods found in France. In that country a powerful finance committee of the Chamber of Deputies, known as the *Commission des Finances*, deals with the budget program in its entirety following its submission to the Chamber. This committee of more than forty members represents the political leadership of the Chamber and is in itself almost an autonomous legislative body as far as the budget is concerned. The Senate's Finance Committee is less important, and reflects the smaller influence that the body which it represents exercises on fiscal legislation. At the head of the French committee the *Rapporteur Général* not only supervises the work of the committee but leads it in its various discussions with the general membership of the Chamber and with the government. It should be noted that the submission of the bills by the commission is fully as significant as the original budget proposals of the Minister of Finance.

In republican Germany the Council (*Reichsrat*) took over the budget following its submission. The progress of the budget through the Council's Budget Committee sub-committees and then through the three readings was identical with the practice met by the budget in the Reichstag. The Budget Committee of the Reichstag was led by the *Rapporteur*, a dominant figure in legislative discussions of fiscal matters. As in France, the budget committees discussed all phases of the fiscal program.

Greece, Hungary, Rumania, Italy, and Turkey are among the nations that have similar commissions covering all fiscal items,

¹⁰ Young, *op. cit.*, p. 62.

including those introduced through the medium of the budget message.¹¹ It will be seen that no American state appears to have adopted similar committee procedures.

An extended discussion of the arrangements in the United States federal government will follow, because of the relation of the scheme to a possible recommendation for the American states. It should be noted that up to this point the bicameral nations, which have been listed with reference to committee practices, do not arrange for joint committees.

United States Federal Government

In the United States the procedures differ greatly from the British or French pattern. A Committee on Appropriations deals with the estimates in the House. It has a membership of thirty-six and has numerous sub-committees created according to budget classifications. In the Senate a similarly constituted Appropriations Committee of eighteen members deals with expenditures. The Senate Appropriations Committee differs from the related body in the House in that its individual members may not offer amendments. It will be noted that the budget does not usually contain specific recommendations for revenues although they may be hinted at or outlined in the budget message. It is therefore not strictly in connection with the budget that the House Committee of Ways and Means and the Senate Committee of Finance deal with the revenue problem. There is a joint Committee on Internal Revenue which acts as an advisory body and does not supersede the taxation committees. The procedure in the federal Congress is well outlined in the various public administrative and budget studies that have appeared.¹² It is not necessary to repeat them at this point. Some of the procedures, however, are interesting from the point of view of concentrating expert legislative opinion on the budget items through the medium of the committees. While the dominant figure of the Budget Reporter of the French or German pattern is lacking, continuity of service and of interest in particular aspects gives some committee members an expert status for their special interests. In the Senate, for example, the heads of different committees are ex-officio members of the sub-committees that discuss the appropriations for the functions in which they are primarily interested.

Some major opportunities for improved committee work are present in the federal arrangement. A basic problem is emphasized by the fact that France and a few other nations have committees that deal with both revenues and expenditures. Their committees are budget committees, not concerned with just one group of fiscal items.

¹¹ Among the nations whose budgetary practices have not been comprehensively surveyed, Cuba, Finland, Japan, and Norway also arrange for single committees to discuss income and outlays. *L. of N., Tech. Comm., op. cit.*, Vol. II, p. 81; Vol. III, pp. 91, 106, 131.

¹² See Willoughby, *op. cit.*, pp. 119-129.

For jurisdictions that have no legal requirements concerning balancing or any restrictions on borrowing, considerable advantage is gained in having a single agency concern itself with income and outlay. A coordination of the two is difficult to avoid since the identical members deal with the same problems simultaneously and cannot shift a particular feature of the financing problem to some other agency. The need for such coordination exists. In the absence of the comprehensive committee coverage it can be brought about only by a powerful executive or by some identical membership on the several committees of one chamber. Buck, in commenting on the fact that our committees work independently of each other in considering the expenditure and revenue features of the budget, notes, however, that:

the Chairman of the House Committee on Ways and Means and Committee on Appropriations keep in touch in order to ascertain what action is being taken by each other's committee and to bring the revenue and expenditure proposals into balance as far as possible.¹³

Another way in which the advantages of comprehensive committee coverage are achieved is through the above-mentioned practice of placing the same individuals on several committees. Chamberlain cites the example of Senator Jones of Washington, who acted simultaneously as Chairman of the Committee on Appropriations and as a Member of the Finance Committee.¹⁴ Such a double membership on the two important fiscal committees is more likely to occur in the Senate, where there are only ninety-six members, than in the House where only a single major committee assignment for each individual member is customary. The House, as a matter of fact, is known to make membership on the Ways and Means Committee a bar to participation in any other important committee activity. The substitutes for a single budget committee are, however, hardly capable of yielding the obvious advantage that a budget-minded rather than a tax-minded or an expenditure-minded committee may yield in terms of the problems under study.

Foreign students of budget questions have been almost universal in their praise of the comprehensive committee arrangement. Neumark, for example, has shown the comprehensive committee to have been unquestionably accepted in the second Reich and in most of the *Laender*. He notes that it is more logical for those discussing revenues to be equally well informed and concerned with expenditures. Neumark also feels, with regard to committee membership, that regardless of the subject matter of the committee's interest, the chance of getting experts in public finance depends on whether such specialists are distributed in ratio to political strength. In countries that operated, as did Germany, with multiple parties, this aspect is of greater signifi-

¹³ Buck II, *op. cit.*, p. 196.

¹⁴ Chamberlain, *op. cit.*, p. 83.

cance than it is in legislatures that generally have only two-party line-ups.¹⁵ Some American authorities have likewise suggested the desirability of the continental arrangement. Buck's comments are enlightening. He notes that

... the French scheme has the advantage over the American in that a single committee in each house considers both sides of the budget and therefore can readily give attention to budgetary equilibrium in its deliberations and recommendations. This is a difficult matter for the four separate committees of the American Congress. The committees of the lower houses in both France and the United States are the first to work on the budget and to report their findings to their respective houses. Usually the committees of the upper house do not settle down to serious work on the budget until they have received the budgetary proposals as voted by the lower houses. The committees of both governments have investigating and clerical staffs, the French staffs being perhaps more elaborate. The powers of the committees to modify the executive recommendations contained in the budget are quite extensive in both France and the United States; indeed, on some occasions their full use has resulted in the complete recasting of the budget.¹⁶

Willoughby has stressed the belief that the complete discussion of all fiscal matters would be too great a task for one committee.¹⁷ He feels the concentration of power and responsibility to be too great. It is difficult to agree with his contention that the discussion of expenditures and revenues should be separated because questions dealing with the former are non-political in character and the latter not. In general, Willoughby's views are typical of those that do not emphasize fiscal and economic considerations.

The Chamber of Commerce Committee report made the subject of a comprehensive budget committee one of its most exhaustively discussed subjects. The arguments both for and against the proposed change are of interest because, as they note with regard to their comments,

There is no intent to limit the carefully guarded powers of Congress over fiscal affairs, but rather to urge the development of procedure whereby the full benefits of systematic fiscal planning can be realized.¹⁸

Disregarding the suggestions for joint committee arrangements, the report recommends that:

There should be set up in each House of Congress a Budget Committee with the duty of proposing and urging the

¹⁵ Neumark, *op. cit.*, p. 88.

¹⁶ Buck II, *op. cit.*, p. 201.

¹⁷ W. F. Willoughby, *Principles of Public Administration* (Baltimore, 1927), p. 472.

¹⁸ *Report of the Special Committee on Federal Expenditures, op. cit.*, p. 18.

adoption of the main outlines of a systematic fiscal program which correlates revenues and expenditures, and indicates the amount of revenues and aggregate appropriations by main classes. Supplementary appropriations, as far as possible, should be included in the aggregate of appropriations. After each House has determined limits on revenues and expenditures, the detailed work of devising appropriate fiscal measures should rest with the present committees concerned with revenues and appropriations.

The Budget Committee could also serve as a definite agency to receive the reports of the auditor and recommend appropriate action thereon.¹⁹

It will be noted that the recommendation is not for an arrangement comparable to the French scheme but for a plan better suited to our existing practices. The Budget Committee is here conceived of as a committee on fiscal policy specializing in the coördination and balanced relationship of revenues and expenditures. The Committee (to be set up only in the House) would concern itself solely with major categories of both sides of the budget program, would endeavor to correlate all fiscal and economic implications and would, with its avowed interest in the balancing problem, express its views on maximum limits for revenues and expenditures. Some indication of the Committee's dissatisfaction with the executive leadership in fiscal affairs at the time the report was written may be noted from the fact that the congressional committee is visualized as developing (after the President's budget has been submitted to Congress) a complete fiscal program and, in the manner of an executive, guiding the program through the whole body of the legislature. Those supporting the Committee's report continue:

It is contemplated that this committee would deal with the broad aspects of the budget only and would not supplant other committees. Its personnel might perhaps be selected from members of the Ways and Means Committee and the Committee on Appropriations. If, as earlier proposed, the budget estimates were presented at a later date, this committee could confer after Congress convened, either formally or informally, with the executive budget authority during the compilation of the estimates. A budget thus prepared would be presented to Congress with added prestige, since it would represent not only the opinion of the President, but also, to a greater or less extent that of key men of the House.

The presentation of the report of this committee in the form of a general outline would precipitate a vigorous debate—perhaps the most important debate of the session—dramatize the situation before the public and sharply focus attention on the perennial questions of revenues and expenditures.

¹⁹ *Ibid.*, p. 22.

After a program had been approved by the House, the Appropriations Committee and the Ways and Means Committee could then handle the details of legislation, keeping, however, within the limits of the plan approved by the House. Should there be occasion to modify the original plan, the Budget Committee would be in a position to recommend changes. In the Senate a similar organization and procedure could be adopted.

Such a committee would be a definite, permanent and continuously available agency to which Congress could look for the development and maintenance of a systematic fiscal program, and which would be in a position to indicate limits on both revenues and expenditures.²⁰

In other words, the Committee would be the first line of defense against any executively conceived deficit financing. This means that it would think in terms of programs.

The opposition ideas expressed in the "Arguments in the Negative" do not appear to raise any sound objections against the general principle of comprehensive budget committees:

Theoretically, such a committee should be of great aid in considering both sides of the public ledger at the same time. Practically, however, there are serious obstacles to the effective operation of such a plan.

In the first place, the members of the present Appropriations Committee are already so burdened with work that they would have no time for a study of questions of revenue. The concentrated attention which the members of this committee, and of the Committee on Ways and Means, must now give to their duties finds practical expression in the practice of the House of Representatives which limits the membership of each of these committees to membership on that committee alone. The government establishments for which appropriations are made have grown up over a long period, have activities of a specialized and varied nature, and can be dealt with on an intelligent basis only by those who have studied the subject closely and for years. It is reasonable to assume that with such a task before them, the members of the Appropriations Committee, if they have any time to spare, would prefer to spend it in an even closer scrutiny of the activities for which appropriations are sought.

The members of the revenue committee also are occupied with a highly complicated and very technical subject in which even the slightest changes in rates or sources of revenue may have far-reaching effects. It is likely that they would be as reluctant to accept the aid of the Appropriations Committee in this field as the latter would be toward giving it.

The members of the Committee on Appropriations also

²⁰ *Ibid.*, p. 20.

could be expected to have a natural reluctance toward limiting their appropriations on the basis of a mere estimate of probable revenues. If the budget had been balanced in the preceding year and the estimated revenues for the next fiscal year showed a decline of \$300,000,000, the proposed course apparently would require the Budget Committee to order that appropriations be reduced \$300,000,000, or that new taxes be imposed to raise \$300,000,000, or that this sum be apportioned between reduced appropriations and increased revenues in the sums fixed by the Budget Committee.

But if an activity is so meritorious that an appropriation is to be denied or limited solely because of a lack of revenue, that lack should be a real one and not a mere revenue estimate which may miss the mark by several hundred millions. Similarly, tinkering with the revenue laws in order to meet a paper deficit which may never materialize would seem to be a very unsound practice.

In the second place, the matters dealt with in raising revenues and in making appropriations are fundamentally different in nature and are to be approached in different ways.²¹

The discussion quotes and approves Willoughby's contention that expenditure and revenue problems are both political and non-political, and concludes as follows:

It is true that the first of the objections here presented might be met by selecting the members of the proposed Budget Committee from persons who are not on the Committees on Appropriations, and Ways and Means. But this device would not meet the second objection given above. Furthermore, it would introduce new difficulties to the adoption of the proposal. When one recalls the reluctance of Congress to concentrate power over appropriations, it is not to be expected that a single group will be given power over the combined field of appropriations and revenue.²²

While the particular proposal of the Chamber of Commerce and the general question of reform of federal practices are not of immediate interest, it is noteworthy that there has been no significant opposition expressed to the idea that the present unrelated and piecemeal presentation of the fiscal program to several groups in Congress should be modified. No attempt is made in committee discussions to view the fiscal program as a whole, and to view the budget proposals of the Executive in their aggregate. Lacking the feature of the English plan which subordinates Parliament to Cabinet leadership, it will be recommended that the federal practice be rejected as a model for state action.

²¹ *Ibid.*, p. 25.

²² *Ibid.*

Belgium, Denmark, The Netherlands, and Sweden have arrangements that are similar to the American practice. Separate committees deal more or less independently with the various measures that are introduced. A number of recommendations for committee practice modification, towards increasing their fiscal efficiency, have been made. Sweden's arrangements have been described as follows:

The Committee on Affairs of the State (*Statsutskottet*), the Committee on Agriculture, and the Committee on Banking are the standing committees concerned with the items of expenditures that enter into the budget; the revenue side is prepared by the Committee on Revenues (*Bevillningsutskottet*). In addition to these standing committees there are many special ones, dealing with certain aspects of the budget. These committees work independently of the Administration (the Cabinet or the Ministries), the only link being the *Statssekreteranen* (Secretary of the Department, as distinct from the Minister) who may be called upon to furnish certain facts that the committee desires.²³

Joint Committee Organization:

In view of the fact that the creation of joint membership committees prevails in some American states, a few expressions of opinion regarding the adoption of such a practice in the federal government are of interest.

Buck notes that a single joint committee would eliminate some disadvantages in the bicameral system though it would not remove all of the difficulties.²⁴

He quotes Willoughby's belief that "any plan for joint action between the committees in the two houses of Congress would be feasible, at least so long as we cling to the historic right of the lower house to originate financial measures and continue to believe in the efficacy of the bicameral system."²⁵ There do not appear to be any real disadvantages apparent in Willoughby's statement.

The Chamber of Commerce did not directly concern itself with the creation of a joint committee. In its Report it noted that joint hearings by the Appropriation Committees of both the House and the Senate would hasten the Congressional deliberations and avoid duplication. The Chamber's report favored a retention of complete liberty of action by each Committee as now constituted.²⁶ That feature of the Report which discussed negative arguments brought out some interesting points which tended to show that the Senate Committee's activities were neither time-consuming nor superfluous. Significant portions of the discussion follow:

²³ Adapted from *Sweden's Budget System*, *op. cit.*, p. 6.

²⁴ Buck II, *op. cit.* p. 196.

²⁵ *Ibid.*

²⁶ *Report of the Special Committee on Federal Expenditures*, *op. cit.*, p. 22.

It does not appear that the proposal would have any appreciable effect in expediting action. The time now spent in Senate hearings is limited, and constitutes but a small part of the time for which Congress is in session. The hearings of the House Committee are always available to the Senate Committee.

If there was any unreasonable delay in the enactment of these appropriation bills, it must be charged to some factor other than the time consumed in the hearings before the Senate Committee.

Nor does it appear that there is any great amount of duplication by reason of separate hearings. The printed hearings on the bills referred to above show that the Senate hearings tend to concentrate on matters not fully developed in the House hearings.

At the same time, the Senate hearings serve a very useful purpose. Where changes have been made in an appropriation bill on the floor of the House of Representatives, such hearings permit an inquiry into those phases of the changes involving new considerations.

The hearings before the Senate committee also permit an examination into changed conditions which may suggest that changes should be made in appropriations which seemed proper in amount when the House hearings were held some weeks or months before. And where supplemental appropriations are sought for authorizations made subsequent to the action of the House on the appropriation bill, the Senate hearing provides an opportunity to examine into these claims, and to add them to the appropriation bill, instead of permitting them to go to swell the total of so-called "deficiencies."²¹

A Joint Committee, if it met at a later date than the House Committee meets at present, and if its membership covered all the subjects discussed, would meet some of the objections raised.

In spite of the existence, already mentioned, of a Joint Committee on Internal Revenue Taxation, there is no likelihood that Congress will abolish separate committees for each of its bodies. For this reason no serious discussion of the advantages or disadvantages is found in terms of the federal Congress.

Summary and Conclusions

Varying degrees of conformity to democratic principles, different institutional and traditional backgrounds, and above all, the absence of many praiseworthy arrangements tend to reduce the value of the national practices as guides for state action. A few conclusions may, however, be drawn. (Some method of eliminat-

²¹ *Ibid.*, p. 27.

ing the burdens of bicameral legislatures appears advisable. In view of the fact that suppressing an existing upper chamber is out of the question in our governmental structure, the fiscal support of the unicameral reform movement seems well advised. Of greater value are the provisions and practices with respect to committees. Joint committees to coördinate the action of both legislative bodies are obviously better suited to the survival of soundly conceived executive budget programs or to the substitution of legislative plans than are separate committees in each legislative body. The comprehensive committee coverage practice of the national governments is one that only a handful of states has adopted. The practice of assigning the entire budget plan instead of only revenue or expenditure proposals to a single committee has much to recommend it.

It would appear that among the remaining democratic governments the leaders might well revise some of their legislative arrangements for budget adoption. It is particularly desirable that the federal government set the pace in revising the Congressional committee structures, in order that its leadership of the states in this phase of governmental reform be established.

CHAPTER XXXIV

LEGISLATIVE ORGANIZATION IN STATE GOVERNMENTS

In general the American states have adopted the federal Congressional procedures in their legislative processes dealing with budgetary matters. The few departures contain some improvements which deserve wider usage.

Priority Rights

The first problem is related to the distribution of budget functions between the upper and lower chambers of state legislatures. Certain priority rights are noted in a few of the states. The initiation of revenue measures, in Kentucky for example, is restricted to the lower House. The effect of these few priority rights has not been influential in bringing about the limitation of upper chamber power.¹ It may generally be stated that at present theoretically all states except Nebraska must cope with the problem of two equally potent legislative chambers.

Unicameral Legislatures

Students of budget problems have not hesitated to add their blessings to the campaign for unicameral legislatures. The results in Nebraska will be watched with great interest, although the State is not one in which legislative practices are known to have been very objectionable. It is hoped that the experiment will succeed in its general objective of introducing efficient non-partisan conduct of legislative affairs, and that, for the benefit of budget problems, other states will follow the lead. Already a few states are considering the abolition of one chamber.

Committee Organization

In order to eliminate some of the disadvantages of the bicameral system (without completely abandoning it), and in order to improve efficiency in procedure, several approaches are possible.

Keeping the English practices in mind, Buck has noted a way to eliminate some of the defects of our standing committee procedures, which he describes as follows:

Certain shortcomings are apparent in the workings of the American standing committee system as applied to the budget. This system fosters "logrolling" behind the closed

¹ Although money bills are often required by constitutional provision to originate in the lower house, in actual practice this procedure amounts to little or nothing. A. E. Buck, *Modernizing Our State Legislature*, Pamphlet No. 4, American Academy of Political and Social Science (Philadelphia, 1936), p. 1. (Hereafter cited as *Buck* III.)

doors of the committee room, promotes "gag rule" on the legislative floor, discourages legislative discussion and thereby reduces publicity to a minimum, stifles rather than develops the "opposition" in the legislative body, and compels the voting of a whole bill at once instead of by its important sections. As a remedy for these ills, the use of committee of the whole has been suggested by certain publicists, but rather as a supplement to the standing committee system than as a substitute for it.²

Parenthetically, it may be noted that Buck deprecates the practice of some states of voting the budget program as a unit. Of greater significance is the discussion of the Committee of the Whole idea.

The Constitutions of two States, Maryland and New York, contain budget amendments that provide for budget discussion by a Committee of the Whole. A few states follow the old parliamentary practice but have standing committees as well. New York has not carried out its provision and there is no record of its legislature's having discussed the budget while constituted as a Committee of the Whole. Buck notes that Maryland's Legislature has also either neglected or refused to establish such a procedure. A few states appear to have voluntarily arranged for budget discussion under those circumstances, although some follow the practice of the federal House of Representatives in this matter. Allowing for some of the disadvantages of the British methods, none of which are inherent in the Committee of the Whole, Buck advocates its use in the states for the following reasons:

It would permit open discussion on the legislative floor, allowing dissenting members of the majority party to express themselves without incurring the charge of party treason, and it would encourage criticism by the "opposition" members. With the executive and his chief officers present on the floor, committee of the whole would enable the legislators to question them freely on the budget and to hear their rebuttals to the findings and reports of the standing committees.³

The procedural advantages to be achieved by the Committee of the Whole idea are not to be confused with those that are concerned with the bicameral character of state legislatures. Several laudable state practices may be noted. One method that merely serves to eliminate the time delays that characterize the bicameral system is the practice of beginning discussions on budgetary matters simultaneously in both Houses. Such practices are found in Iowa where the budget and drafts of appropriation bills are referred to the appropriation committees of both Houses immediately following

² Buck II, *op. cit.*, p. 201.

³ *Ibid.*

their submission. Similar methods are used in Maryland, Michigan, North Dakota, Oklahoma, and West Virginia, and no doubt elsewhere as well. Oklahoma's budget law is singularly explicit in its efforts to insure that both Houses of its legislature will coordinate their efforts when budget items are proposed and noted. The Brookings study in describing the relevant statutes states:

. . . the law provides: (1) That the legislature, in taking action upon the budget recommendations of the Governor, shall sit jointly in open sessions while considering the budget;⁴

Elsewhere the Brookings experts note that the State has failed to follow the practice and that joint open sessions are not held.⁵

Joint Committee Activities

What appears to be the greatest contribution made by the states is their recognition in some cases that joint committees should coordinate the activities of both chambers and thus avoid costly duplications. The list of states that operate permanently with some joint committee activity on budgetary matters is extensive. It includes Connecticut, Arkansas, Delaware, Florida, Idaho, Maine, Massachusetts, Mississippi, Missouri, North Carolina, Oklahoma, South Carolina, Tennessee, Virginia, Wisconsin, and Wyoming. Most of these states provide only for joint hearings by the committee which does not as such vote on bills submitted to both legislative bodies. Nevertheless, there is some indication that a unified legislative approach may be fostered. In view of the fact that the committee hearings usually do not concern themselves with details, but are useful in informing the members regarding general principles, joint hearings can be recommended. They save time both for the legislators and for those presenting their views. Of the group mentioned, only three New England states, Connecticut, Maine, and Massachusetts, provide for actual joint committee operation. The comments of Chamberlain on the situation in Massachusetts are of interest:

Massachusetts leads in another form of committee work, the joint committee, composed of members of the appropriate committees of both Chambers. . . . Joint committees report their bills out to either Chamber, so as to secure a fair distribution of business, except that money bills go to the lower house. The important taxing and judiciary committees meet in joint session, though not properly joint committees. In Massachusetts this procedure has been successful in shortening the time of consideration, and in lessening the labors of those interested in legislation who have to follow meetings of one instead of two committees.⁶

⁴ Brookings Institution, *Oklahoma Survey*, op. cit., p. 238.

⁵ *Ibid.*, p. 240.

⁶ Chamberlain, op. cit., p. 91.

There are a number of jurisdictions, including Alabama, California, Colorado, Georgia, Illinois, Indiana, Kansas, Kentucky, Montana, New Hampshire, New York, Ohio, Oregon, Pennsylvania, Rhode Island, Utah, and Washington, in which the complete committee structure of each bicameral body is combined.

While at this time the advantages of a unicameral legislature are not yet apparent, the defects of the two-chamber arrangement are obvious. The following passage will gain in emphasis when the problems of efficient budgetary adoption are kept in mind:

Delay is the essence of a bicameral system, and the forces of modern civilization have transformed government from a repressive into an active agency—one that can ill afford delay. Serious problems demand immediate solution, and cannot await the bargaining and compromising that inevitably characterize the proceedings of two-chambered legislatures. If a check upon unwise legislation is necessary, it may be found in the veto power of the governor and the power of the courts to declare laws unconstitutional. Moreover, experience has shown that the bicameral system sometimes actually facilitates the enactment of ill-considered measures, instead of preventing their passage. Each house feels less responsible for the legislative product, because it shares its accountability with the other chamber. Thus it frequently happens that an unwise but popular bill is passed by the house in which it originated in the belief that it will certainly be defeated by the other house. When it reaches the other chamber, however, the fear of popular clamor may be sufficient to secure its enactment there, also. The members of the second house are likely to reason that after all the bill was not of their making so that the blame does not lie primarily at their door. If the legislature were a unicameral body, such evasion of responsibility would be impossible.⁷

It must be recalled that the states are listed according to legalized procedures. Actual practices may differ; in Oklahoma, for example, the experts noted that no joint hearings were held as provided by law. They commented on this failure to observe the law stating:

The inclusion of this provision in the budget law was for the purpose of facilitating the action of the legislature upon the appropriation recommendations of the Governor. It is a wise provision and if followed it ought to aid materially the two committees in arriving at the total appropriations to be made for the support of the government for the ensuing biennial period.⁸

Other authorities support the joint committee practice and recommend its adoption wherever it is lacking or is a mere dead letter

⁷ Macdonald, *op. cit.*, p. 195.

⁸ Brookings Institution, *Oklahoma Survey, op. cit.*, p. 240.

law. The Maine survey aids in showing the Institute of Public Administration's experts' views.⁹ The Chamber of Commerce report on the political subdivisions also favors joint committee action.¹⁰ Such a committee assures the undivided attention of budget officials and spending agency heads to the legislative inquiries. Political difficulties between the two chambers might be smoothed out before rather than after the general deliberations. In New York State there has been at least one recent instance where one Chamber has deliberately attempted to come into conflict, rather than cooperate, with the respective committee of the other House.¹¹

There is no doubt that the best financial interests of a state are helped by having both houses served by a joint membership committee. It will be possible for the legislatures to carry on their deliberations more efficiently and more intelligently. The difficulties that lie in the path of achieving any reforms in these directions are occasioned by the fact that it is necessary to have single-party control of both chambers in order that the joint committees may work smoothly. Bi-partisan committees, representing chambers of different political complexions, are bound to favor political rather than financial interpretations.

On some recent occasions the New York State legislature has voluntarily provided for joint hearings of its two leading committees, the Senate Finance and the Assembly Ways and Means bodies, which are concerned with expenditures. This has held equally true of tax problems. For example, in 1933 there were joint sessions of the Senate and Assembly Taxation Committees, while in the same year there were joint hearings by the two first-mentioned Committees. The joint bodies were, of course, unofficial in character and reporting was made by the individual committees. In 1937 the Assembly and Senate groups (Ways and Means and Finance Committees) again met for joint hearings. It is obvious that the legislators, except when motivated by partisan rancor, have themselves felt the advantages of a time-saving and instructive character which joint committee action denotes. If conference committees can finally bring about compromises, joint groups might do so in the first instance. Chamberlain reports that in New York unofficial committees of party leaders function very much in the manner of standing joint committees.

There appears to be no widespread belief that the merging of committees, especially with regard to their hearings and deliberations, would be in conflict with any basic institutions of democratic governments. The ideal arrangement would be a joint committee that would analyze both revenue and expenditure items. Few such committees exist in the states, but there have been suggestions for a more widespread adoption.

⁹ Institute of Public Administration, *Survey of Maine*, *op. cit.*, p. 56.

¹⁰ *State and Local Budgetary Methods*, *op. cit.*, p. 16.

¹¹ N. Y. Times, January 24, 1936.

Budget Committee Scope

From information that has been made available, it appears that only Connecticut, Massachusetts, and North Carolina permanently provide for comprehensive committee coverage. In none of the other states is there in any of the legislative bodies a single committee dealing with the fiscal program as a whole. It is not improbable that on a number of occasions the tax and expenditure bodies of a single house may have assembled for hearings or joint deliberations. It is equally possible that there are examples where one committee that is powerful with regard to budget matters may have discussed the entire budget problem. At the time of the above-mentioned deliberate conflict of the New York State Senate and Assembly groups, the hearings of each chamber were conducted by the leaders of tax and expenditure committees. For instance, the Assembly hearings were held under the joint auspices of the chairmen and members of the Ways and Means and of the Taxation and Retrenchment bodies. Incidentally, the Assembly Tax Committee is named as if it were a truly comprehensive budget committee.

For New Jersey the Institute of Public Administration recommended a single legislative committee instead of the four found in that State. It also recommended that this committee devote serious thought to the budget problem and that it should not be made a joint committee solely for enlarging the scope of the travel inspection tours and other junkets linked to legislative budget study.¹²

The need is strongly felt for developing in state legislatures a broad point of view on the entire budget program and for giving the revenue side of the picture an emphasis that present practices fail to provide. No joint committee activity was needed when a variable property tax rate solved the revenue problem. Few states will be able to claim exemption on this score. In view of the fact that a number of states have joint committees dealing with financial problems it is possible that only one committee may be necessary to cope with the budget program in its entirety. The reform towards one committee would not be such a radical departure for all states as it would be in New York, where the start must be made from four standing committees.

Summary and Conclusions

There are a few difficulties that are inherent in the institutional background of the states. The fact that state legislatures are in session only infrequently and for short periods implies that the standing committee members cannot usually become as expert in financial matters as can the *Rapporteur* of the continental budget commissions. Continuity and leadership may be lacking. Commenting on this aspect, Chamberlain notes:

In states in which the legislature meets biennially, it is

¹² Institute of Public Administration, *New Jersey Survey*, op. cit., p. 9

obvious that there is no such continued attention of committee members to their work as there is in Congress, where a member of an important committee is engaged for a large part of each year on the work of his committee and, even in the interim between sessions, may be visiting those sections of the country in which his committee is most concerned, or listening to arguments for or against propositions before the committee, or preparing himself for its meetings at the next session.¹²

The fact that legislative meetings are held biennially and only for a short time militates against the efficiency of full legislative review and voting and need not be related to committee action alone.

Cost limitations prevent the states from providing their committees with permanent staffs of experts. Only New York and perhaps a few other commonwealths have provided for permanent legislative commissions, maintaining expert staffs to suggest revisions of financial measures. The legislative council device discussed in the next chapter is also used in only a handful of states. New York is probably unique in providing its appropriation committees with expense funds, with stenographic assistance, and in furthering committee operations. Even this State, however, with a daily cost of government of over one million dollars, does not provide its committees with sufficient funds to provide for staffs to check and to study estimates. If the legislature has the power to initiate a fiscal program of its own choosing it should be equipped, from a technical point of view, to do so.

It is possible, however, through such arrangements as joint revenue and expenditure committees and permanent research staffs to overcome some of the major defects. The success of the unicameral movement should also have a great influence on enhancing the efficiency of the legislative organization for the periodic voting of budget programs.

¹² Chamberlain, *op. cit.*, p. 88.

CHAPTER XXXV

LEGISLATIVE SESSION FREQUENCY IN THE AMERICAN STATES

Regular Legislative Sessions

Before the procedural aspects of adoption practices are discussed, there will be a short digression on the question of the frequency of legislative sessions. Previous analysis has indicated the undesirability of biennial or quadrennial budget periods. Only five annual budget periods were noted. The existence of few short budget periods in the United States must be attributed solely to the fact that regular legislative sessions are not called with greater frequency. (The case of Alabama is so outstanding as to eliminate the necessity for much specific comment. It has, since the adoption of its budget period, not once failed to require a special session to intervene between the regular quadrennial meeting of its legislature. Regular planning and adoption continues, nevertheless, to adhere to the four-year period.) In the other states the problem is one of weighing relative merits. Legislative sessions are expensive and, with regard to non-fiscal legislation, frequently unessential. The notorious partisan character of state governments in the United States adds many pros and cons which will not be discussed at this point.

The comments of an authority on state governments on the biennial session practice and its background indicate that fiscal necessity was not a factor in the adoption of the two-year intervals. MacDonald notes:

In most of the states annual sessions were held, and a few states provided for two sessions a year. In 1796, however, Tennessee specified that its legislature should meet at two-year intervals. Its example was not generally followed at first, but after a time the biennial idea began to prove extremely popular. Men had found to their sorrow that legislative assemblies could be guilty of tyranny and folly, not to speak of downright dishonesty. They had learned that every legislative session was likely to be marked by the passage of unwise and unnecessary laws. And so they reasoned, somewhat illogically, that the way to reduce the quantity of undesirable legislation was to cut in half the number of legislative sessions. With only half as much time at its disposal, the legislature could do only half as much

harm. This was the council of despair, but it made a strong appeal to the popular imagination, and has become a maxim of present-day politics.¹

Disregarding all but fiscal considerations of the problem, it appears desirable for most of the states, in which taxes other than property levies predominate, to eliminate the lengthy estimating required when biennial sessions are held. Certainly in the states in which the finances are of any considerable magnitude, there should be an annual review. It would appear feasible for states that have biennial sessions and do not wish to open their statute books annually to a floodgate of miscellaneous legislation, to provide for sessions meeting in the years in which the regular sessions are not called to discuss exclusively the adoption of the budget and the relevant fiscal measures. The experience during the depression supports the belief that the states find it impossible to function with biennial meetings alone and that the state legislatures necessarily convene in special session with considerable frequency.

Special Legislative Sessions

The past five years have seen many state legislatures meeting in their off years and grinding out piecemeal and detached fiscal legislation. Table XIII indicates the widespread use and frequency of special sessions during the depression and the recent recovery years. It is obvious from the pace with which fiscal legislation was turned out that most of the sessions originated with desires for, or included, the adoption of revenue and expenditure measures. California, Connecticut, Florida, Nebraska, Nevada, North Carolina and North Dakota are the only states among the forty-three having no regular provision for an annual session that did not indulge in special sessions. The concentration of special sessions in 1933, an odd-numbered year in which many state legislatures regularly meet, serves to indicate that annual sessions might not have eliminated all the others. The fact that the states with one year budget periods, including New York, have also called special sessions indicates that the frequency of meetings may be caused partly by the time as well as the infrequency of regular meetings. The list nevertheless is impressive and raises the question whether the special session is a solution of the disadvantages of a biennial meeting during crisis periods.

The special session might prove to be a means of economy if the irregular meetings were judiciously called and if a comprehensive supplementary or corrective budget machinery were available. Special sessions of state legislatures are not, however, to be considered as one of the successes of our legislative processes. The legal limitations regarding such sessions, as well

¹ MacDonald, *op. cit.*, p. 198.

TABLE XIII

STATE LEGISLATIVE SESSIONS
1932-1936, Inclusive

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NEW YORK STATE TAX COMMISSION

| STATE | 1932 | 1933 | 1934 | 1935 | 1936 |
|------------------|--|--|---|---|---|
| Alabama..... | (b) (8/16-11/4)..... | (b) (1/31-4/14)..... | | (a) (1/8-9/13)..... | (b) (2/11-4/17) (c) (11/28) |
| Arizona..... | (b) (12/28/31-1/9)..... | (a) (1/9-3/14) (b) (6/5-6/27) (c) (8/27-6/27) | | (a) (1/14-3/21)..... | (b) (11/6-11/25) |
| Arkansas..... | (b) (3/15-4/12)..... | (a) (1/9-3/9) (b) (8/14-8/24) | (b) (1/2-1/26) (c) (4/9-4/11) | (a) (1/14-3/14) | |
| California..... | | (a) (1/2-7/26) (b) (8/2-8/18) (c) (12/4-1/22/34) | | (a) (1/7-6/16) (a) (1/2-4/6) | (b) (5/25-5/26) (b) (3/23-4/1) (c) (11/17-11/20) |
| Colorado..... | | (a) (1/4-5/9) (b) (8/2-8/18) (c) (12/4-1/22/34) | | (a) (1/9-6/5) (a) (1/1-4/3) | (b) (11/5-) (b) (12/28-1/5/37) |
| Connecticut..... | | (a) (1/4-9/7) (a) (1/3-5/17) (b) (10/18-5/7/34) | (b) (10/18/33-5/7)..... | | |
| Delaware..... | (b) (11/15-12/1)..... | (a) (4/4-6/2) (b) (1/9-1/19) (a) (1/19-3/18) (a) (1/2-3/1) (b) (6/19-6/22) | | (a) (4/2-5/31) (a) (1/24-3/23) | |
| Florida..... | | | | | |
| Georgia..... | | | | | |
| Idaho..... | | | | (a) (1/7-3/7) (b) (3/8-3/20) (c) (7/8-7/10) (a) (1/6-6/29) (b) (10/28e3/6/36) | (b) (7/29-7/31) |
| Illinois..... | (b) (11/5/31-5/3)..... (c) (1/19-5/3) (d) (2/1-5/3) (e) (9/7-12/21) (b) (7/7-8/16) | (a) (1/4-7/1) (b) (10/3-11/9) (c) (11/22-5/11/34) | (b) (11/22/33-5/11)..... (c) (2/13-5/11) | | (b) (1/8-) (c) (2/5-3/6) (d) (5/19-6/19) |
| Indiana..... | | (a) (1/5-3/6) (a) (1/9-4/20) (b) (11/8-3/12/34) (a) (1/10-3/24) (b) (10/30-12/4) | (b) (11/6/33-8/12) | (a) (1/10-3/11) (a) (1/14-4/23) | (b) (3/5-3/18) (b) (12/21-) |
| Iowa..... | | | | | |
| Kansas..... | | | (b) (3/1-3/7) | (a) (1/8-3/13) | (b) (7/7-7/13) |
| Kentucky..... | (a) (1/5-3/17)..... | (b) (8/15-9/26) | (a) (1/2-3/15) | (b) (2/8-2/27) | (a) (1/7-2/15) (b) (2/24-3/7) (c) (3/9-3/26) (d) (8/30-5/9) (e) (12/23-1/16/37) (a) (5/11-7/8) |
| Louisiana..... | (a) (5/9-7/7)..... | (b) (3/20-3/24)..... | (a) (5/14-7/11)..... | (d) (2/27-3/2) (e) (4/15-4/20) (f) (7/4-7/8) (g) (9/7-9/11) (a) (1/2-4/6) | |
| Maine..... | (b) (4/1-4/1)..... | (a) (1/4-3/31) (b) (11/14-11/14) | | | |

| | | | | | |
|---------------------|------------------|---------------------|------------------------|--------------------|-------------------|
| Maryland..... | | (a) (1/4-4/3) | | (a) (1/2-4/1) | (b) (3/4-4/2) |
| Massachusetts..... | (a) (1/6-6/8) | (b) (11/23-12/12) | | | |
| Michigan..... | (b) (3/29-5/21) | (a) (1/4-7/22) | (a) (1/2-6/29) | (a) (1/2-8/14) | (a) (1/1/12) |
| Minnesota..... | | (b) (11/8-12/4) | | | |
| Mississippi..... | (a) (1/5-5/18) | (a) (1/4-7/18) | (b) (11/22/33-1/4/34) | (a) (1/2-6/22) | (b) (12/21-) |
| Missouri..... | | (b) (11/22-1/4/34) | (c) (2/19-4/4) | | |
| Montana..... | | (a) (1/3-4/19) | (b) (12/5/33-1/8/34) | (a) (1/8-4/25) | (b) (12/17-) |
| Nebraska..... | | (b) (12/6-1/6/34) | | (b) (12/2-1/25/36) | (a) (1/17-3/26) |
| Nevada..... | | (a) (1/2-4/4) | | (b) (10/1-) | (b) (9/14-6/19) |
| New Hampshire..... | | (a) (1/4-4/25) | (b) (10/17/33-1/12) | (a) (1/2-5/29) | (c) (11/23-) |
| New Jersey..... | (a) (1/18-6/11) | (b) (10/17-1/14/34) | | | |
| New Mexico..... | | (a) (1/2-3/4) | (b) (11/27/33-1/19) | (a) (1/7-3/11) | |
| New York..... | (a) (1/6-3/11) | (b) (11/27-1/19/34) | | | |
| North Carolina..... | | (a) (1/3-5/9) | | | |
| North Dakota..... | | (a) (1/18-3/16) | | | |
| Ohio..... | (b) (3/29-4/1) | (a) (1/4-3/16) | (b) (5/14-6/4) | (a) (1/1-5/25) | (b) (5/12-5/13) |
| Oklahoma..... | (c) (9/27-10/3) | (a) (1/10-1/9/34) | (a) (1/10/33-1/9/34) | (a) (1/21-3/21) | (a) (1/14-6/19) |
| Oregon..... | | (a) (9/28-11/4) | | (a) (1/2-6/20) | (b) (12/21-) |
| Pennsylvania..... | (b) (3/27-3/19) | (a) (1/10-3/11) | (b) (4/9-4/27) | (a) (1/8-2/28) | (a) (1/8-6/25) |
| Rhode Island..... | (a) (1/5-4/19) | (a) (1/4-4/10) | (a) (1/3-4/27) | (a) (1/2-4/17) | (a) (1/1-5/18) |
| South Carolina..... | (a) (1/12-4/9) | (b) (7/26-8/24) | | | (b) (10/20-10/20) |
| South Dakota..... | | (c) (10/18-10/18) | | | |
| Tennessee..... | | (a) (1/4-5/16) | | | |
| Texas..... | (c) (8/30-9/21) | (a) (1/3-3/3) | | | |
| Utah..... | (d) (11/8-11/12) | (a) (1/2-7/10) | (b) (12/6/33-12/12/34) | | |
| | | (b) (8/16-6/22) | | | |
| | | (c) (12/8-) | | | |
| | | (a) (1/3-4/22) | | (a) (1/8-5/11) | |
| | | (b) (5/24-7/15) | | (a) (1/8-3/9) | |
| | | (b) (1/3-1/7) | | (a) (1/7-5/23) | |
| | | (a) (1/9-3/9) | | (b) (9/18-) | |
| | | (c) (11/20-12/9) | | | |
| | | (a) (1/3-5/5) | | | |
| | | (b) (11/18-12/21) | | | |
| | | (a) (1/3-4/21) | | | |
| | | (b) (6/27-6/30) | | | |
| | | (a) (1/10-5/18) | | | |
| | | (a) (1/3-3/3) | | | |
| | | (b) (7/21-3/5) | | | |
| | | (a) (1/2-4/22) | | | |
| | | (a) (1/10-3/1) | | | |
| | | (b) (9/14-10/18) | | | |
| | | (b) (1/3-1/9) | | | |
| | | (a) (1/9-3/9) | | | |
| | | (c) (7/10-8/2) | | | |
| | | | (b) (1/29-2/27) | | |
| | | | | (a) (1/7-4/22) | |
| | | | | (b) (7/15-8/8) | |
| | | | | (a) (1/8-5/11) | |
| | | | | (b) (1/16-10/27) | |
| | | | | (a) (1/14-3/18) | |
| | | | | | (b) (8/24-8/28) |

TABLE XIII—(Continued)

| STATE | 1932 | 1933 | 1934 | 1935 | 1936 |
|--------------------|--------------------------|---|--------------------------|---|---------------------------------|
| Vermont..... | | (a) (1/4-3/25)..... (b) (7/19-7/19)..... | (b) (4/18-4/19)..... | (a) (1/9-4/11)..... (b) (9/10-1/24/36) | (b) (12/21-) |
| Virginia..... | (a) (1/13-3/12)..... | (b) (8/17-9/6)..... | (a) (1/10-3/20)..... | | (a) (1/8-3/20) (b) (12/14-) |
| Washington..... | | (a) (1/9-3/9)..... (b) (12/4-13/34) | (b) (12/4/33-1/13)..... | (a) (1/14-3/20) | |
| West Virginia..... | (b) (7/12-3/27)..... | (a) (1/11-3/13)..... (b) (4/10-6/4) (c) (11/21-3/24/34) | (b) (11/21/33-3/24)..... | (a) (1/9-3/11)..... | (b) (6/15-6/20) |
| Wisconsin..... | (b) (11/24/31-2/5/32)... | (a) (1/11-7/25)..... (b) (12/11-2/3/34) | (b) (12/11/33-2/3)..... | (a) (1/9-9/27) | |
| Wyoming..... | | (a) (1/10-2/18)..... (b) (12/4-12/23) | | (a) (1/8-2/17) | |

Key

- | | |
|----------------------------|----------------------------|
| (a) Regular Session | (e) Fourth Special Session |
| (b) First Special Session | (f) Fifth Special Session |
| (c) Second Special Session | (g) Sixth Special Session |
| (d) Third Special Session | |

(Adapted from data published in *Tax Systems of the World* 3rd, 4th, 5th, and 6th editions, *op. cit.* and *The Tax Magazines*, Vol. 15, Nos. 1 and 2, Jan. and Feb. 1937.

as their history, indicates that their usefulness in promoting sound fiscal legislation is not ideal.²

Of great significance to the budget problem is the fact that under present arrangements the special sessions can result only in patchwork modifications in fiscal policy. It will be shown below that none of the known devices for complete planning and adoption, as a feature of the revisions, are available. Special sessions, therefore, offer a poor solution to the problem since their irregular character denies to the legislation which they adopt the regular and orderly procedures that are essential to budgetary balance. One notes that where the special meetings intervene they usually result in the superimposing of some revenue or expenditure items without a comprehensive link to the budget picture. For most of the states, frequent regular sessions offer the best solution.

The Problem of Infrequent Sessions

There can be no hesitation in recommending annual legislative sessions as a major reform element in American state legislative processes. The resulting annual budget period would offer some solution of the difficulties that grow out of administering the

² Since regular sessions of most state legislatures may be held but once in two years, and even then are narrowly restricted as to length, special sessions have inevitably become more numerous, though by no means the rule, except in a very few states. Even with regard to special sessions, however, popular distrust of the legislature is evident. Usually such sessions may be held only at the summons of the governor, and are limited to twenty or thirty days. Nebraska has a ten-day limit. Six states permit the legislature to determine the necessity for a special session,^{*} but three of them require an extraordinary majority for this purpose.[†] In addition to permitting the governor to determine whether a special session shall be called, thirty states authorize him to specify the subject or subjects requiring legislative action. The legislature, while in special session,[‡] is then prohibited from considering any other matter. Under this plan, therefore, the governor can prevent the enactment at special sessions of legislation that he dislikes; but he cannot compel acceptance of his own legislative program. The constitutional prohibition against legislative consideration of matters not presented by the governor is generally considered to apply only to the function of law-making. So it would be quite proper for a legislature summoned in special session for the express purpose of considering the problem of unemployment to turn its attention to the approval of appointments or the impeachment of state officials, since appointments are an executive matter, while impeachment is a judicial act. Within the last twenty-five years two state governors have been impeached, tried, convicted and removed from office at special sessions of the legislature that they called to consider important proposals for new legislation. Profiting by their experience, perhaps, the Governor of Mississippi announced in 1931 that he would not call an urgently needed special session of the state legislature unless a majority of the members pledged themselves in advance not to impeach him.

^{*} Connecticut, Louisiana, Massachusetts, New Hampshire, Virginia, West Virginia.

[†] Two-thirds of all the members in Louisiana and Virginia, and three-fifths of all the members in West Virginia.

[‡] Alabama, Arkansas and Florida, however, permit the legislature, by an extraordinary vote, to proceed to a consideration of other matters. Mississippi expressly excludes impeachments from this limitation. (Macdonald, *op. cit.*, p. 200.)

public finances in a dynamic community. Even the few states, such as Nebraska, that appear to have minimized the incidence of the recent depression on their finances will in the long run find the annual legislative review of the budget, as long as only the present substitutes are available, to be a desirable practice. As a temporary step towards ultimate perfection the budgetary experts have contented themselves with recommending biennial meetings in place of Alabama's quadrennial session.³ For the other commonwealths the tendency has been to recommend annual sessions.⁴

The special session has already been considered as one inadequate solution of the biennial session question. Another solution is wholly unsuitable and unadaptable for the American states. It consists of vesting wide powers regarding budgetary revisions and fiscal policy-making in the hands of the executive. In the final analysis, a wholesale abdication of the legislative power such as is implied by the proposed practice does not offer any grounds for discussion. It is evident, both on logical grounds and on the basis of past experience, that a solution of the need for more frequent overhauling of the finances is not provided by vesting the executive or some executive group with restricted revision powers. It may be surmised that social and economic hardship will follow in the wake of mandatory and permissive modification policies such as were practiced in recent years.⁵ No automatic or quasi-automatic revision of rates, planned far in advance and to become operative upon the realization of some contingent circumstance, is a substitute for a careful watching and guidance of fiscal policies during any period of a fluctuating economic background. It is possible to prefer the special session as a solution to efforts to work with rigidly controlled and limited executive meddling as a feature of some preordained execution plan. The special session offers at least the theoretical possibility of a complete and careful legislative review of the entire fiscal problem.⁶

Legislative Councils

Among the other solutions that might be suggested is a development along lines of the legislative councils now operating in Kansas and Michigan.⁷

³ Brookings Institution, *Alabama Survey, op. cit.*, Vol. 3, Part 2, p. 180.

⁴ See Buck III, *op. cit.*, p. 39.

⁵ See Chaps. XLV and XLVI.

⁶ The small group of states that have biennial budget periods established through constitutional amendment might not be able to prepare and adopt a new budget in intervening years. Other legal difficulties with revising particular items may also be encountered.

⁷ In 1933 Kansas attempted to overcome some of the evil effects of infrequent legislative sessions by creating a legislative council—a body of fifteen representatives and ten senators holding at least quarterly meetings after the legislature's adjournment—whose chief duty was declared to be the preparation of a law-making program for the succeeding legislature. This council was also authorized to study problems of

In 1936 Kentucky also joined the group experimenting with legislative councils.⁸ Wisconsin's Council may also be considered though it functions as an advisory body to the Governor. While these have as yet no real legislative powers, their rôle in eliminating some of the difficulties that are associated with legislative sessions will be readily recognized. In Kansas, for example, the Council and its research staff have done valuable work in studying problems and presenting reports. Such work is done in other states by other agencies, if at all.

The council has not decreased the need of a greater frequency of sessions. It can only remove the difficulties inherent in regular meetings of short duration, in faulty legislative processes, and internal organization or can assist in preparing and agitating for special sessions at timely intervals. When states find their estimates entirely out of line, their revenue policies wrong or inadequate, and their expenditure programs woefully in need of revision, the council cannot replace the machinery that would come into operation when annual sessions permit twelve-month budget periods.

Summary

In order that the states may enjoy the needed benefits and privileges that accrue from annual budget periods, it is suggested that they take measures to make such steps possible by legalizing regular legislative sessions at twelve-month intervals. In units adhering to democratic institutions no other solution or substitute for more frequent legislative meetings can be recommended.⁹

state-wide interest and to collect information on all pertinent subjects. Before the close of 1933 Michigan also established a legislative council—a somewhat smaller body than the Kansas council, but organized in the same manner and vested with similar functions. In both states the members of the legislative council are appointed by the presiding officers of their respective houses, each of the major parties receiving representation approximately in proportion to its numerical legislative strength. Macdonald, *op. cit.*, p. 200.

⁸ Buck III, *op. cit.*, p. 21.

⁹ A startling proposal to reintroduce biennial budget voting in New York State has recently been made. According to press reports:

Senator Desmond of Orange announced that at the suggestion of former Governor Smith he would introduce a resolution or a constitutional amendment to limit the Legislature to consideration only of appropriation bills in even-numbered years, all other legislation to be taken up in odd-numbered years.

The purpose of this amendment is to force concentration of legislative and public attention on the budget every other year, in order to help check the rising tide of State expenditures.

In odd-numbered years a newly elected Governor and Senate have just taken office. In such years the legislative sessions would be as at present, with the budget competing for attention with a host of other general and local bills.

In even-numbered years the annual budget would be the only bill before the Legislature, except for such bills as the Governor may recommend. (N. Y. Times, March 21, 1937.)

Experience elsewhere has indicated that the greatest social and economic hardships arise when legislators fail to adjust revenues and expenditures

to new conditions. In view of this as well as of the fact that there is no relation between the size of a jurisdiction's budget program and the frequency of periodic revision no serious consideration can be given to such a proposal. Buck reports that Governor Curley of Massachusetts suggested that his State adopt a unicameral legislature which should meet biennially. A 1936 recommendation towards the same goal is also noted (Buck III, *op. cit.*, p. 35). It appears improbable, however, that any of the states in the annual budget group will revert to the biennial category.

CHAPTER XXXVI

SUBMISSION OF THE BUDGET PROGRAM

Following the chronological developments of budgetary stages, it will be recalled that the analysis has been brought to the point where the budget program is prepared for submission to the legislature. There exist a number of practices dealing with the communication of the suggested or quasi-mandatory fiscal programs. These are of interest in the development of executive budget leadership. Some elements of these practices have been discussed also with regard to the documents published in connection with budgetary matters.

National Governments

England has received world-wide attention for the ritualistic performance that is staged each year upon the occasion of the delivery of the budget speech. It is a masterpiece of showmanship and is not without result in focusing legislative and public attention upon the fiscal program as a whole and in eliminating unnecessary concern with minor details. Although the amount of the expenditures has previously been communicated, a summation and other factors that influence the taxation program for the new period are not known until the time of the budget speech. The new data include a final review of actual revenues and expenditures in the period just elapsed, and an estimate of the yields that are expected on the basis of the tax legislation then in force.

Chancellors of the Exchequer make dramatic entrances, and their reputations are based upon their oratorical ability and the clarity of their performance as well as upon their fiscal proposals. There has been no prior opportunity for public discussion of government proposals. Since opposition or favorable press reports have not made their appearance, all attention is eagerly focused upon such proposals as are made. Such an interesting practice as the reading of the speech after the close of the stock exchange and others all add to the tenseness and color of the occasion. In the spring of 1936 a "leak" in the details of the Chancellor's income tax proposals led to a scandal resulting in the resignation of a Cabinet Minister. The mild crisis aroused by the leakage and the subsequent political scandal helped focus interest upon the procedural aspects of the British budget ritual.

The American practice stands in sharp contrast with the British procedure. In the federal government of the United States the submission of the budget is not without significance, since it is the occasion on which Presidents have recently announced some major policies with respect to fiscal matters.

The continuous stream of fiscal legislation that follows the budget message, the superficial treatment of revenues in the message, and a tendency to postpone the planning of some important items diminishes the attention that the budget message attracts. The ritual and the personal appearance features found in Great Britain, as well as the great element of secrecy, are also lacking. Since our Congress knows the expenditure plans and since the Committees may have already acted on them, strictest secrecy is not always maintained. With respect to influence in causing the major elements of the President's policy to be kept in mind throughout the discussion, it is less successful. It should be noted that our federal practice differs from that of most of the other nations since the Chief Executive, rather than its leading financial officer, is the one to submit the budget program.

State Governments

It is undeniable that executive budget leadership and legislative public interest are heightened by the personal presentation of an explanatory message accompanying the tables and other documentary data. The contents of detailed appropriation estimates will not fire any but partisan interest; it is necessary for those responsible for the budget to make clear their reasoning and their policies. New York State has been fortunate in having its Governors prepare, and usually personally convey, their budget messages. There is also the practice noted in the federal system of including messages in the text of the documents. A great many states fail to have their executives summarize the fiscal accomplishments, conditions and plans of the state, and publicize their findings. Only a few commonwealths have, like Kansas, placed in their statutes a requirement that an explanatory message accompany the estimates.

Where a summation in the form of a budget message has not made its appearance, a number of difficulties have been noted. Budgets have received little or no publicity by virtue of the fact that there have been no press comments on the chief executive's message. There may follow an unfortunate breakdown in the necessary public interest in fiscal proceedings. Furthermore, the absence of public and legislative focus upon the Governor's fiscal program enables him to adopt a course so inadequate as to amount to shirking the responsibility of a fiscal program. In several of the Southern states instances have been known in which Governors have merely indicated their belief that the legislature will be able to initiate an adequate program.¹

¹ Because the Budget document has not been presented to the Legislature by means of a formal message from the Governor, but merely by a letter of transmittal usually brief, incorporated in the pamphlet itself, the legislators have paid scant attention to it. It receives no mention in the House or Senate journals and finds its place on the members' desks along with the reports of the various state officers and institutions. As one of a number of documents containing financial information, it has

The legal requirement that the Governor submit a balanced program and the fact that the legislatures are restricted in the unbalancing acts which they may perform may be considered as minimizing the need for an effective submission procedure. Nevertheless, there are a number of instances in which under such a procedure the nature of the balanced program submitted would be better known and subject to greater discussion and question than in the case of a dull presentation. This represents one of the minor features which nevertheless may loom important with respect to a consistent attitude towards the problem. The presentation is important because it serves to re-establish a link between the executive and the legislature under the modern executive type of budget systems.

Perhaps when the states increase the comprehensiveness and unity of their budgetary systems, and improve their preparation techniques, the need for a budget message will be felt. A state's fiscal program is worthy of a sponsor and a presentation by him of his ideas. It may be well to mention the fact that it is considered desirable that Governors submit drafts of appropriation bills to the legislature and that these be transmitted with the budget message. This is an attribute of executive budgeting and need not be defended. Almost all the states require that this practice be followed, but not a few have disregarded legal mandates. On the other hand there may be too much emphasis on the importance of bills. In some states, like Tennessee, only an appropriation bill is submitted by the Governor; the document with the message, tables, and detailed and comparative estimates is not printed.²

New York's practices indicate that executive leadership has not extended to revenue proposals; if the submission phases may be taken as indicative, the Governor submits appropriation bills with his budget. These are considered as introduced by him. Although the Governor may propose revenue measures through the medium of his budget message, he submits no bills. The opportunity for exceptional procedure, which would identify the Governor's responsibility for the bill, is missing.

By virtue of the budget message, the frequent personal transmission, as well as the availability of the executive's own appropriation bills, New York's practices are among the best found in American states. All the other commonwealths might follow its standards.

been available for reference in connection with the drafting of appropriation bills, but there its usefulness has ended. Brookings Institution, *Mississippi Survey, op. cit.*, p. 360.

² Snavely, *op. cit.*, p. 14.

CHAPTER XXXVII

LEGISLATIVE PROCESSES IN NATIONAL GOVERNMENTS

The previous discussions of the various legislative practices affecting the adoption of a proposed fiscal program have been concerned with the internal organization of the legislature. The several aspects that affect the ability to adopt a planned and balanced fiscal program have been indicated. It has also been stressed that many of the committee and bicameral features delay and hamper budgetary discussions, and may, therefore, be responsible for the fact that deliberations are at times begun considerably in advance of the period to which they refer. This is not always the case since several systems begin their legislative discussions following the beginning of the period. In such cases, however, there is equal need for emphasizing the necessity of eliminating the delays that reduce the projectory character of the budget acts.

Following the procedure already adopted in this study the discussion will begin with a description of the practices in national governments. Temporal arrangements are placed in the forefront of discussion. General problems of legislative procedure, political line-ups, or any other institutional factors that vary from jurisdiction to jurisdiction or are part of the general subject matter of legislative processes, are not treated. The budget elements, which have been isolated, can be fully appreciated only when associated with their background. The discussion of the adoption procedures in national units, and in the American states as well, cannot for this reason achieve any degree of conclusiveness. They serve only to establish viewpoints based solely on factors affecting fiscal efficiency.

Great Britain

It will be recalled that in Great Britain the budget speech is delivered after the beginning of the period to which it refers. Opportunity to survey the variable portion of the expenditure program has already been granted to Parliament. The submission of expenditure estimates to the House, sitting as a Committee of Supply, has already taken place before the time of the budget speech. The enactment of the supply bills and the appropriation bills authorizing the actual expenditures of funds, following the approval of their purposes in the supply bills, is being pursued at the time of the opening of the budget speech. The revenue measures in the Finance Act and the Consolidated Fund bills (dealing with the permanent elements of the system) are acted upon by Commons following delivery of the budget speech. As outlined in the Provisional Collection of Taxes Act, a temporary plan for revenues is also in effect.

There exists in Great Britain a legal time limit before which the various bills related to the budget program must be adopted. The bills are seldom voted much before the stipulated August 5th date. The procedures for bridging the four-month period after the opening of the fiscal year are discussed below.

Another aspect of the time limitations that detracts from the opportunities available for complete legislative review of the budget estimates is the requirement that only twenty days be consumed for the discussion of the estimates. The whips of the leading parties together agree on the items to be discussed since the time would not permit any uncontrolled debates over the wide range of measures covered by the budget. The limitation has been the source of much criticism levelled at the procedure of the House of Commons since it results in a condition under which a large proportion of the estimates are barred from any detailed criticism. It has already been pointed out with reference to the French Senate that time relationships can be considered in terms of effective limitations on powers to act.

There is little that is praiseworthy in these practices but few would deny that they function satisfactorily and serve the British well. That the British consume seven months or more in voting the fiscal program may be disregarded because of the fact that the elapsed time falls chiefly within the fiscal year for which the program is being deliberated and that no delay in putting the program into effect is involved.

The Empire Group

The group of nations linked to Great Britain do not display any noteworthy variations from the British system although certain differences may be noted. In all the jurisdictions comprising this group there are no time limits on legislative action. A number of nations, including both Australia and the Irish Free State, have systems providing for somewhat lengthier delays in voting the budget program.

In Australia the voting of the revenue proposals that have been introduced through the budget speech or at some other time, is not concluded until three to five months after the April 1 introduction. In the Irish Free State a very lengthy period for discussion is also needed. This is perhaps fostered by traditional reliance upon votes of account covering several months. There do not appear to be any committee or bicameral reasons for the delays, nor does the scrutiny of detail or the revisory powers that are granted to Parliament present a need for such a lengthy period. The final voting of the budget bills in the Irish Free State does not take place until the end of July. In his splendid study of the Irish budget system O'Connell has summarized the legislation covering the procedures of this typical British adoption system.

The procedure adopted by the Dail in dealing with the Estimates is set out in Standing Orders 104, 105, 106, 107 and 108 *Dail Eireann*. They are as follows:

104. During the consideration of Estimates in Committee of Finance, motions to refer Estimates back for reconsideration, or to reduce a Vote in respect to any particular item can only be made after due notice, subject, however, to the proviso to Standing Order No. 25.

105. It shall be in order, before entering on the discussion of the Items in a Vote, to move that the Estimate in question be referred back to the Minister in charge of the Department, for reconsideration.

106. The Chairman shall put each Vote on the Estimates separately. It shall be in order, at any time during the discussion of a Vote or any Item in a Vote to move the postponement of such Vote until another Vote, or other Votes in the Estimates shall have been disposed of. When any Item or Vote has been disposed of, it shall not be in order again to debate the same during the consideration of a new or subsequent item.

107. When a motion is made in Committee on Finance to reduce a Vote in respect to any particular Item, the discussion shall be directed to reducing that Vote accordingly, and Deputies shall speak to that question alone.

108. In the discussion of Supplementary Estimates the debate shall be confined to the Items constituting the same, and no discussion may be raised on the original Estimate, save in so far as it may be necessary to explain or illustrate the particular Items under discussion.¹

Elsewhere O'Connell elaborates on the nature of fiscal measures and explains the stages that precede those outlined above.

Financial business involves additional procedures before the five Bill Stages outlined are reached, and by "Financial business" is meant "any aid, grant or charge upon the public revenue or upon the people." (Any motion relating to such must be introduced by a member of the Executive Council, and no amendment proposing to increase the amount named in such motion may be made by any Deputy save a member of the Executive Council.) The procedure in regard to any such motions is briefly as follows:

1. It must be considered first in Committee of the whole Dail know as the Committee on Finance. (Standing Order 101.)

2. When the Committee has agreed to the motion, it must report to the Dail before any Resolution or Vote of the Dail is taken. (*Ibid.*)

3. A Bill is then introduced, and goes through the five stages outlined above.²

In New Zealand the passage of the appropriation bills after, rather than before the opening of the fiscal period, is inevitable, because of the date of submission of the revenue program.

¹ O'Connell, *op. cit.*, p. 10.

² *Ibid.*, p. 12.

Because of the proximity of Canada to the United States and the fact that its provinces have generally adopted budgetary procedures similar to those of the Dominion, Canada's methods may be discussed in some detail. The House of Commons, which has resolved itself into a Committee of Supply, has already begun its discussion of revenue and expenditures at the time of the submission of the estimates prior to the budget speech. After Committee passage supply bills are acted upon by the House of Commons sitting as that body. Bills are then introduced in the Senate and they are subject to procedure that, as has been indicated, is shortened by priority and other rights restricted to the House. Following the budget speech revenue proposals are debated by the House sitting as a Committee of Ways and Means, after which a vote on the identical items by the House itself is made. Canada and India are the sole members of the British group that vote the budget bills before the beginning of the period for which they are intended.

The elaborate procedure and the awkward time sequences that characterize the British Parliamentary action on financial matters are not entirely satisfactory. In the words of a leading Empire student of public finance:

It will be seen that in regard to the voting of the Budget there is still a good deal of unnecessary procedure which centuries ago may have been necessary when the check was on the Crown and not on the Government of the day.^a

The Netherlands

In The Netherlands, as in Great Britain, the procedures involve the necessity of bridging a short period that intervenes between the time of the voting of the fiscal program by the legislature and the beginning of the fiscal period. The system that is found does not present any outstanding characteristics, with the exception of the fact that a written report upon each division of the budget is prepared by the Committees of the Lower House and forwarded to the respective Ministers. Answers to these communications are expected, and on the basis of them further discussion proceeds. Custom calls for completion of Lower House voting sometime in December and the passing on of the bills to the Upper House. The limits on activity in this last mentioned Chamber probably make it possible for the budget program to be introduced not long after the deliberations of the Lower House. This system is desirable, since it does not carry to an extreme the prolongation of the discussion into the legislative period and does not deprive the program of too much of its projectory character. The Dutch practices rather than those of Great Britain might serve as a precedent for American reforms incidental to a change in budget dates in relation to legislative sessions.

^a Shirras, *op. cit.*, p. 987.

The nations that have been noted as having limited the power of the upper body of their legislatures display varying practices. None has any great similarity to the British-type legislative processes.

France

In France the *Commission* in the Chamber takes over the entire budget and distributes it to the various subcommittees for discussion. The *Commission's* recommendations are made known to the Chamber in a formal manner by the *Rapporteur Général*. Hearings are held, expenditures are authorized, funds are voted, and revenue proposals are enacted. Subsequently the budget goes to the Senate and undergoes there an identical procedure.

One of the reasons for the lengthy Parliamentary discussions in France lies undoubtedly in the fact that the work of the powerful *Commission* is essentially of a preparatory nature. The *Commission* and the government negotiate much in the same manner that is found in other nations and in American states at the time of negotiations between the budget official and the individual spending agencies. The government reserves the privilege of having its original proposals included as amendments to the modifications introduced in the *Commission's* recommendations. Such a power, it will be recalled, is enjoyed by the spending agencies in some American states.

The merits or disadvantages of some of the specific provisions are obscured by traditional or political factors. It should not be inferred that the weaknesses of the French system lie in the fact that its *Commission* is concerned with both revenue and expenditures. Perhaps the frequency of changes in government and the need for an annual reimposition of all revenues are of greater relevancy.

The French have a weighty body of statutory requirements fixing the time that the legislature may not exceed in its budget deliberations, but it is of no practical significance. The limitations are indeed of a useless character as long as the practices regarding the voting of provisional monthly appropriations (provisional twelfths) facilitate their disregard. No analysis of France's budgetary experience can claim any thoroughness without dwelling at length on Parliamentary procedure in voting budget acts, a subject not herein discussed.

Both Finland and Norway, which fall in the unicameral group, appear to find no difficulty in completing the budget discussions in the period allotted for this purpose. The practices are similar to those in the lower chambers of other nations.⁴

Various European Nations

The discussions turn now to a group of nations which, like the United States, are not operating under systems that restrict the power of the upper house. It is interesting to note that

⁴ See L. OF N., *Tech. Comm.*, *op. cit.*, Vol. III, pp. 90-131.

these nations have particularly provided for legislative discussion periods sufficiently long to allow for the various needs. The use of devices to bridge delayed appropriations is less frequent. The nations whose practices have been observed include in addition to the United States, Belgium, Denmark, Germany, Greece, and Sweden. In view of the fact that the legislative background, as far as the bicameral character of the legislature is concerned, is not unlike that of the American federal government, analysis of their provisions may profitably be made in some detail.

In Belgium, in both the Chamber and the Senate, various Committees, which like the subcommittees of the American appropriation bodies deal with one particular phase of the budget program, prepare their respective bills for floor discussion. Each Committee has its own *Rapporteur*. This does not seem to be a desirable practice and is even less advantageous from the point of view of maintaining a balanced relationship and a broad view of the comprehensive executive program than is the American committee and subcommittee device. Belgium has no time limits on legislative action and as a result invariably carries over the discussion of expenditure items into the fiscal year.

The German system was somewhat lacking in comparability to the American pattern because of the peculiar character of the German Council which corresponded more to the Swiss Upper House than to American federal or state Senates. We have already noted in France the fact that the Government may attempt to carry its program over the head of the powerful budget *Commission*. A similar case was found in Germany where the government, if it disagreed with the changes introduced by the Council, had the right to stand by its original estimates, which were submitted by the Council to the Reichstag. For these items over which disagreement was noted the government was favored by the fact that the suggestions of the Council were required to have been carried by a two-thirds vote in the Reichstag instead of by the usual majority. The German system was, however, one in which the absence of time limits did not result in unduly long legislative discussion. It was reported that the budget was normally voted at the end of March, in time for the opening of the period to which it refers. This does not indicate any unnecessary time lag. The Reichstag and the Council naturally utilized the full period at their disposal.

The procedure in Greece is in many respects identical with that found in the United States. However, in spite of the fact that the bills of approval must be enacted within four days, frequent delays due to various reasons are noted, and a developed system of provisional twelfths is found. This Balkan nation has recently reduced its legislative processes to a nominal position.

In Sweden the system calls for extreme activity on the part of Committees. Another interesting fact is that a system similar to that followed by several American states already noted is found in that discussion by the two Chambers is begun simultaneously following submission. This, of course is facilitated

by the fact that the Committees, unlike those in other governments that have been surveyed, are drawn approximately equally from members of both Chambers. The Swedish procedures are briefly as follows:

The Budget, (His Majesty's proposition no. 1) is debated in the early part of January, immediately after the Riksdag has convened. It is then referred to its Committee, which is also the case with individual "motions" pertaining to appropriations submitted from time to time. In case the two chambers cannot agree as to which committee a certain bill or item belongs, the question is settled by the Committee on the Constitution. (The procedure to be followed by the various committees is outlined in the Constitution (*Grundlagen*), and the committees handling questions pertaining to the budget are the same for both Chambers, comprising members from both).

The Committee on Revenues considers the revenues and other income and makes recommendations as to tax-rate and sources of taxation. Each Committee works separately, but on non-controversial questions a high degree of coöperation prevails. Cabinet members may not take part in the work, but a representative of each department may sit in, in an advisory capacity.

Each of the Committees submits memoranda on the proposed changes in the budget. The final summarized memorandum is submitted by the Committee on Revenues. The completed budget is submitted to the Riksdag by the Committee on State Affairs. All these various memoranda are submitted to the Riksdag at the same time, and are deliberated upon, point by point, by each chamber. When both chambers have reached the same decision, the measure (the budget) is sent up to the King. If the two chambers disagree, they meet in one session and the questions are settled by simple majority. The final budget is formally passed in the early part of June as one measure in the completed Economy-Plan of the Government.⁵

The time restrictions in Sweden are of a type somewhat different from that usually found in other governments. They are more like those of the various states which place procedural difficulties in the path of measures outside the submitted program. Government proposals may not be submitted two months after the beginning of the session and the members are given only a twelve-day period in excess of the same period. On the other hand members are restricted in their amendments to government proposals. The amendments must be introduced ten days after the proposals are made. The difficulties in Sweden arise not in relation to the fiscal period but from the fact that the length of the legislative session is restricted. In the event that the Riksdag dissolves before the completed budget is adopted,

⁵ Adapted from *Sweden's Budget System*, op. cit., p. 7.

the entire procedure is repeated. This apparently is an occasional occurrence. Under normal circumstances voting is completed and the budget promulgated by the King before the opening of the fiscal year.

United States Federal Government

Legislative procedure on budgetary matters in the United States is relatively simple. There are no particular restrictions that affect the budget items other perhaps that the question of priority of revenue bills and the inability of department heads to appeal directly to Congress for funds. It is known, furthermore, that the federal system calls for a double voting with respect to expenditures. The nature of the expenditures must be authorized and they are subsequently financed by specific expenditure legislation. The distinction is important because it is to the standing committees that bills authorizing additional items or modifying existing law are reported. The legislation here analyzed directs the government to carry out a certain function. The Committee on Appropriations alone has the authority to report bills that provide for expenditures. The appropriations supply the funds through which the above-mentioned authorizations may be put into effect. The dual appropriation process is not a feature of discussion in this study though it might under certain circumstances be a desirable device whereby economy in relation to revenue availability might be achieved.

There are no time limits on legislative action in Congress. However, in view of the fact that tax measures are voted in no specific relationship to the budget or fiscal period, and that Congress is granted a six months' period in which to concern itself with expenditure items, there is no reason to expect the voting of appropriations after the fiscal year has begun. The problem would be more relevant if some different time relationship calling for shorter periods between the submission and the opening of the fiscal period were found. In addition to the lengthy period available to Congress for its discussion, a further explanation of its avoidance of any recourse to provisional financing may be seen in the manner in which fiscal legislation is expedited through the House and the Senate. As a recent writer has explained:

The simplest procedure to get a bill before a legislative body is to give the right of way to a motion that it may be taken up for consideration. Almost universally, bills raising revenue and appropriation bills are accorded this privilege, as it is obvious that they must be passed to keep the government going. The House rules give the right to the committee on ways and means to report at any time on bills raising revenue and to the committee on appropriations, on the general appropriation bills.*

* Chamberlain, *op. cit.*, p. 107.

Other Nations

Hungary and Rumania are representative of nations where there are time limits on legislative deliberations. These are particularly well-developed in Hungary where the length of the deliberations for each stage is specified. The period of one month, accorded to the Upper House for its deliberations, is in keeping with its somewhat restricted powers. It has already been noted that the Upper House can accept or reject the budget only as a whole. The writer has been informed that the budget is usually promulgated by the Regent in June, in advance of the opening of the fiscal year. Nevertheless, provisions for bridging a period after July 1 are present, and appear to be used at intervals. In Rumania the requirements that the budget be adopted before April 1, the opening of the fiscal year, are strictly adhered to. Provisional appropriations are neither available nor needed.

Although the legislative provisions in Italy are set forth in considerable detail, a number of factors are present to justify our lack of interest in their procedures. It is interesting to note, however, that in the absence of Parliamentary debates there have still been occasions on which provisional budget voting has been found. It is noted, however, that the budget is usually "voted" in time.

The procedures that are found in Turkey and Soviet Russia are equally only of nominal interest. A somewhat unusual fact regarding the Turkish system has been communicated to the writer by an authority. Compulsory study of the estimates submitted by the government to the Assembly is required of its members. It is not known by what means this compulsion is exerted and whether or not examinations on the budget are held for the legislators.

It is rather a strange phenomenon that Italy and Turkey have gone to great detail to specify the procedural elements of legislative debates. One is inclined to believe that legislative functions in these cases are advisory and consist largely of coöperation with the government in planning its program. This has been obviously indicated in Turkey where the subcommittees of the budget commission of the Assembly, to which individual ministerial budgets are allocated for study, are made up of members who are experts in a particular branch of government. In Turkey Parliamentary rules prohibit debates on the budget for seven days following its release from the commission. This time limit is undoubtedly related to the compulsory study already alluded to. It appears that in recent years there have been delays and that one effect of the procedures has been the necessity for operating with provisional twelfths.

In Soviet Russia the legislative power appears to remain concentrated in the hands of smaller governmental agencies which do not correspond to the legislatures of the other nations. The work of the budget Commission of the Central Executive Committee appears to be an extension of the budget planning stages. There is no time limitation on what the central executive com-

mittee of the Union may require for its deliberations. Delays were frequent prior to 1928 but since that time it is reported that all budgets have been finally promulgated before the beginning of the period to which they refer.

Summary

Several reasons militate against any efforts to use this brief and necessarily inadequate discussion of national legislative processes as a starting point for formulating conclusions designed to improve the practices in the American states. Any attempt at generalizations would indicate a scarcity of procedures that may be deemed praiseworthy. The practices of the British groups and the American federal Congress do not warrant any universal acceptance. Furthermore, the variety of time relationships, bicameral power distributions, legislative organizations, to mention only some of the factors treated in this study, do not permit of any measurement of conclusions in terms of processes in particular.

Only careful selection of particular phases of some national experience will serve a useful purpose in an analysis of state problems. Among the practices to be observed are those providing for advantageous timing. The Dutch, for example, appear to have evolved favorable arrangements in regard to this matter. Other phases are those providing for leadership in voting and for speeding the passage of the budget program through two chambers. The usefulness of any of these national practices that have been surveyed must be found chiefly in their contribution to the improved timing of voting.

CHAPTER XXXVIII

LEGISLATIVE PROCESSES IN STATE GOVERNMENTS

Legislative Processes and Fiscal Legislation

In this chapter are noted some phases of state legislative processes, chiefly those pertaining to the passage of the budget acts through the legislative channels. Among these the time elements are emphasized because the question will become important when the states make the necessary reduction of the long intervals between the planning, adoption, and execution of budget measures. It is also wise to stress adoption of procedures of short duration because other phases of desirable budget reforms point to shorter and more frequent sessions.

No attempt is made to deal comprehensively with the general problem of the limits on the length of legislative sessions. There can be no successful effort to measure the proportionate influence of the session duration on fiscal legislation. The time limits, where they are effective, must be linked to what is stated about limitations dealing specifically with budgetary legislation.¹

There does not appear to be any necessary conflict between the budget problem in particular and the general question of the duration of legislative sessions. When sessions are short, it is essential that the fiscal problems be treated as efficiently as possible in order that ample time may be available for the vast quantity of statutory material that is constantly being discussed and enacted. In cases where the sessions are of long duration or unlimited in length, as is apparently the case in New York, similar pressure on shortening the periods dedicated to the discussion of fiscal problems does not exist but may be welcomed as a practice that will make delayed submissions practicable.

No effort will be made to discuss general legislative practices or the governmental problem of legislative reform.² It is, how-

¹ Not content with limiting regular sessions to alternate years, twenty-nine states further restrict legislative activity by limiting the length of the session to a specified number of days, ranging from forty in Oregon, South Carolina and Wyoming to one hundred and fifty-six in Connecticut. A sixty-day limit is most common. Sixteen states endeavor to curb legislative enterprise by specifying that legislators' salaries shall be reduced, or stopped altogether, after a certain number of days. Usually this wage restriction applies only to special sessions; sometimes, however, it refers to regular sessions as well. Macdonald, *op. cit.*, p. 199.

² A more comprehensive discussion of legislative processes would have to discuss the actual passage of fiscal legislation through the chambers of the state senates and lower houses. One phase in particular, which has outstanding importance with respect to budget problems, is that dealing with hearings. While the character of the bodies which hold hearings has been discussed in a previous chapter, no discussion of such problems as the access to hearings, publicity, representation and questioning of state officials or the frequency and duration of meetings is entertained. The fact that

ever, interesting to note that the general procedures can profitably be modified and that the changes proposed by students of government are in the same direction as those that arise from a purely fiscal viewpoint.

Legislative rules and procedures are to a large degree self-imposed and reforms are thus feasible.² Buck has pointed out the general organizational and procedural weaknesses of state legislatures. These are:

1. Large and unwieldy structures.
2. Cumbersome and often ineffective methods.
3. Lack of legislative-executive cooperation.
4. Failure to supply responsible leadership.⁴

Any steps designed to remove these weaknesses and to improve legislative procedures and methods will serve the best interests of financial soundness.

The discussion of the states deals with committee structure rather than the nature of the distribution of powers and duties between the upper and lower chambers of bicameral legislatures. With respect to the possibilities of preventing unnecessarily lengthy discussion periods and of eliminating other difficulties that are present when two consecutive reviews by legislative bodies are made, two outstanding methods in the states were noted. The first, adopted by five out of the forty states whose legislative practices have been observed, provides for simultaneous discussion of the budget by the appropriation committees of both Houses. The States in this category, as has been noted elsewhere, are Iowa, Maryland, Michigan, North Dakota, and West Virginia.

budget hearings as now held are not serving the needs of fiscal problems may be attested by the following comment of the Chamber of Commerce committee:

It is regrettable that in the past the budget hearings have tended to be perfunctory in character, with relatively little active interest being shown by the taxpayers. In many instances the members of the public that do participate are there to advocate some particular expenditure desired by a limited group. With the increase of popular interest in governmental costs during the depression, there has been a development in the other direction, and chambers of commerce, taxpayers' associations and other groups have heightened public interest in governmental costs. With such interest, budget hearings assume real importance.

Increased public participation in budget making is highly desirable. While many commercial and trade organizations, and numerous governmental research bureaus and taxpayers' associations, have done noteworthy work in this regard, such activities are by no means as widespread or as well developed through the country as they should be. *State and Local Budgetary Methods, op. cit.*, p. 17.

² Each house of the state legislature adopts its own rules or procedures. Some procedural details are quite commonly prescribed in the state constitution, but ways of evading these requirements are generally found without difficulty. The rules, as adopted at an early meeting of each legislature, are practically certain to be the preceding legislature's rules without alteration of any kind. Usually they are antiquated, cumbersome, needlessly detailed and difficult to comprehend. Macdonald, *op. cit.*, p. 220.

⁴ Buck III, *op. cit.*, p. 4.

Simultaneous Committee Discussion Group

In the states in this group the committees of both Houses receive the budget and the accompanying bills, if any, and study them simultaneously for report to their respective bodies.

In North Dakota, although the budget is referred to the Appropriation Committees of both Houses, appropriation bills may be introduced in either or both Houses. This does not tend to modify the practice of simultaneous discussion. The duration of legislative action is not limited. The sole restriction refers to the time in which the members may introduce proposals of their own. As noted elsewhere they must have unanimous consent of the members of the House in which they are introduced.

In Maryland the Governor must issue a proclamation extending the session if the budget bill is not finally enacted three days before the time of its closing. During the extended period only the budget bill and the expenses connected with the extended session may be discussed. The voting does not appear in any way to infringe upon the budgetary period, which begins on October 1. The regular session, which has a time limitation of ninety days, would be finished sometime in March. Time limitations are absent in Michigan.

In West Virginia a provision identical to that of Maryland is found.⁵ In addition there is a restriction upon the passage of appropriations other than those contained in the budget bills unless the latter are passed.

There does not appear to be any outstandingly desirable result from the fact that simultaneous discussion takes place. If, however, it were combined with favorable time relationships, it would undoubtedly facilitate the acceptance of a short period allotted to the legislative deliberations.

Joint Legislative Committee Group

Discussion turns now to a much larger group of states, fourteen in number, which is known to provide for joint legislative committee operations. A large number of Southern states are in this group. Among them are Arkansas, Florida, North Carolina, South Carolina, Tennessee, and Virginia.⁶

In Florida the Appropriation Committees of both Houses must meet in joint session within five days after the meeting of the legislature. There are provisions for public hearings at that time. The procedures are not designed for speedy completion of the deliberations, and one notes that there are no restrictions

⁵ If the Budget Bill shall not have been finally acted upon by the Legislature three days before the expiration of its regular session, the governor may, and it shall be his duty to issue a proclamation extending the session for such further period as may, in his judgment, be necessary for the passage of such bill; but no other matter than such bill shall be considered during such extended session except a provision for the cost thereof. *W. Va. const.*, art. VI. § 51, sub. § DI.

⁶ Data on legislative practices in Arkansas are not presented.

on the duration of the legislative session. Possible delays are also not eliminated through the practice of adopting special appropriation bills before the discussion of the general budget bills is completed. The close of the legislative session scheduled for early in June does, however, provide for a proximity to the fiscal period considerably better than the usual performance of the Southern commonwealths.

South Carolina and Virginia have statutes containing identical provisions. There is the requirement that the joint committees meet for hearings within five days after the budget is submitted or the session opens. Time limits are not evident in either of these two states. In general, there need be no concern over time relationships since in Virginia, for example, the bills are adopted three or four months prior to the opening date of the fiscal period. This is the final useless interval in the various stages that have been observed up to this point.

In at least one of these Southern states the committees appear to deal with questions of revenue and expenditures, in addition to providing for hearings at which is represented the membership of both Houses. This is undoubtedly the case in North Carolina in which the budget appropriation bills are introduced by the Chairmen of the Appropriation Committees in each House. The budget review and several of the other budgetary procedures are undertaken by the Chairmen of the Finance Committee in each House. What is, however, of interest is the fact, already noted, that the Appropriation Committees sit jointly, hold joint hearings, and consider the entire budget plan including appropriations, revenues and borrowing. This is outstanding and is perhaps one of the few procedures found in Southern states that is acceptable for recommendation in all the other commonwealths. The State has the usual time requirements. Instead of limiting the length of the discussion, it requires the legislative debates on the budget bills to start within five days after submission. The requirement that stresses the other aspect is the usual one restricting other appropriations until the budget appropriation bill has passed both Houses.

In Tennessee the information supplied indicates that the Governor's budget goes to the legislature and is considered by the Committees on Finance and Ways and Means. At the initial hearings the members represent both houses of the legislature. The title of the Committees, if they follow the usual designation given in the American legislatures, indicates that questions of both expenditures and revenues are discussed. There is indication that the Committees have on some occasions taken a comprehensive view of the state's financial problems. In 1931 they paid little attention to the Governor's suggested appropriation bill and prepared a new one which reduced the Governor's budget by a sum of \$6,628,320.⁷ There are no special

⁷ *Budget System of Tennessee, op. cit., p. 7.*

time limits on fiscal legislation, other than the apparent necessity which this state, similar to many others, has of passing the budget before the beginning of the fiscal year. The legislative session, operating with a regular time limit of 75 days should not make this a difficult performance.

States, other than those in the Southern group just mentioned, that provide for joint committee hearings include Connecticut, Delaware, Idaho, Maine, Massachusetts, Missouri, Oklahoma, Wisconsin, and Wyoming.

In Connecticut the Joint Committee again apparently concerns itself with both revenues and expenditures. It is indicated that appropriation bills and revenue measures are referred to a Committee of Appropriations. This Committee is empowered to report any bill that it desires without regard to the content of the estimates submitted to it. In this respect the Committee is in a position to exert a powerful influence on the State financial program and is not unlike the French Chamber's *Commission* in its potential importance.

In Delaware and Idaho the usual requirement that only five days elapse before committee deliberations begin is found. In other respects the provisions are not exceptional. It is, however, with respect to the time that some variations are noted. The legislature in Delaware is restricted to a discussion of the budget bills, and must exclude all others if it has not passed these on the fiftieth day of the legislative session. Furthermore, the usual restriction is found regarding the passage of special or further appropriations until the budget bill has been passed by both Houses.

In Idaho there is no time limit on legislative action except in the case of emergencies. Under these particular circumstances bills introduced by the Joint Committee on Appropriations take precedence over all other appropriation bills. There is furthermore a restriction of forty days on the time during which the committee may deliberate. It is not unexpected that some kind of time restriction is found in Idaho in view of the fact that this State is in the group in which the budgetary discussions are started after the beginning of the period. It is perhaps even surprising that it is only the committee deliberations that are restricted. The forty day period is indeed a long one considering the circumstances.

Massachusetts, together with Connecticut and Maine among this group, appears to be one of the few states that have a single committee dealing with all phases of their fiscal programs. A legislative Committee on Ways and Means concerns itself with the submitted budget program. Massachusetts is one of the few commonwealths in which are found speedy deliberations held in a sensible relation to the opening of the new period. The budget is usually given preference over ordinary legislation and the voting is completed in March. It will be recalled that the fiscal period in that state begins on December 1. The "bridging" provisions are discussed below. The State's practices may be considered as

among the best since the organizational and procedural arrangements conform to logically acceptable standards.

In Missouri the internal arrangements of the Legislature, as well as its procedures, conform to the usual pattern of the joint committee group. With respect to the time arrangements this State must be included among the small group of those that have followed the British method of regularly voting the budget after the beginning of the period to which it refers. There remains the basic difference that the legislature is not in session for a month or more preceding the opening of the fiscal year. There are no time limits on the legislative action and it has been noted that the discussions usually are completed towards the close of the legislative session which is legally limited to seventy days. This would place the voting approximately two months after the opening of the fiscal year.

In Oklahoma the methods are typical of those found in other states of the same type. It is noted in the statutes⁸ that "neither House shall consider further or special appropriations, except in the case of emergency, until the budget bill shall have finally been acted upon in both Houses." In spite of the fact that there are no limits on the legislative session, this provision, in addition to the fact that a six-month period is available between the opening of the session and the beginning of the fiscal year, assures the possibility of the usually delayed but still timely voting.

In Wisconsin the executive budget presented in a single appropriation bill may be introduced in either House and is referred to the Joint Committee of Finance following its introduction. After hearings are held the Committee's recommendations are incorporated in amendments to the bill. There are no time limits on the legislative discussions nor are there priority rights for the budget bill. The opening of the fiscal year on July 1 gives the legislature the bulk of a six-months' period for its deliberations. Actually the bill is usually adopted one or two months prior to the beginning of the biennium.

In Wyoming the usual processes are accompanied by a complicated series of time limits. The Joint Committee must introduce the general appropriation bill in the House fifteen days after receipt of the Governor's estimates. Exceptions are made for emergencies. Furthermore, neither House may consider other appropriations until the budget bill is passed. An added feature is found in the Constitution (Art. 3, Sec. 22) providing that no appropriation bills may be submitted after five days before the close of the session except by unanimous consent. The State is well armed with devices to prevent a too extensive consideration of its budgetary problem. This is not entirely out of place since the fiscal year beginning on April 1 is not as far distant from the date of the introduction of the budget as is the usual case. The forty-day limit on the length of the legislative session, which begins early in January, should supply adequate safeguards that the voting shall not be unduly delayed.

⁸ Okla. stat. (Harlow, 1931), § 5376.

Dual Expenditure and Revenue Committee Group

The most common procedures found are those of the states that adhere to the legislative procedure pattern found in the federal government. Such commonwealths, important from a fiscal point of view as California, Illinois, New Jersey, New York, Ohio, and Pennsylvania are included. Of the states that have been surveyed some twenty fall into this group and it is probable that the several states whose legislative procedures have not been surveyed also follow this pattern. The practices here discussed are represented as the typical American state procedures.

A brief review of the remaining states in this group, arranged alphabetically, reveals several minor variations from what was found to be the federal practice. In Alabama the statutes make no provision for voting or adopting the budget and the usual legislative processes are used for fiscal matters. This is one of the few states in which the basic budgetary law has not provided for some phase of the enactment of the budget by the legislature. This absence of any particular restrictions is found also in the case of the time arrangements, which are not legally provided. The budget bills usually become law near the close of the regular fifty-day session. This would give to Alabama, along with Texas, the unenviable distinction of having the longest period between the final adoption of the budget and the period to which it applies. The budget, which would be finally adopted before the end of February, would not go into force before the following October. One feels, however, that any concern over this time lag is relatively unnecessary in view of the much greater problem posed by the exceptional length of the budget period.

In Georgia there is a provision regarding restrictions on the passage of separate appropriation bills prior to the adoption of the budget bills. Georgia, however, is noteworthy because it provides for a split session. In this State the second meeting is held during the summer. This latter half of the regular session, beginning July 15th, has been indicated as the one in which budgetary discussions are held. This would give to the State the usual time period for its discussions since the June-January dates correspond to the frequently found January-June period.

California also follows the split session method and usually passes its budget in the second half of the session opened in March. This indicates a typical relationship to the opening of the fiscal period. Final enactment is undoubtedly facilitated by the provision regarding restrictions on the passage of special or further appropriations prior to the adoption of the budget bills.

The split session device, initially practiced in California in 1911, has since been copied in a number of states.⁹

⁹ West Virginia adopted the split session plan in 1920, but abandoned it eight years later. Since 1918 the constitution of Massachusetts has authorized split sessions, but the General Court has preferred to carry on its business in the old way. The Alabama legislature, on the other hand, has occasionally split its sessions without express constitutional

If the device had been more successful and more conducive to careful legislative study and deliberations, it might form the background for some proposed budgetary reforms. It is conceivable that some provisional financing measures might be passed at an early session and that at a later session, close to or after the beginning of the fiscal period, the budget might be passed. Georgia's arrangements, for example, would be ideal if the fiscal year began in July and the procedure outlined above were adopted.

Colorado, Illinois, Indiana, Kansas, and Kentucky form a group of states with similar provisions. In the last two mentioned States, namely Indiana and Kentucky, the particular procedure that bills must be read three times is noted. In both the last jurisdictions the practices are elaborated in great detail in the statutes. There appear to be no time limitations for this group. Neither duration nor precedence limitations are found. In each State dates of the legislative sessions and the opening of the fiscal period are such that no particular problems are raised. The July 1 fiscal period opening date and regular sessions beginning in January are found in each case.

Mississippi's legislative practices and experiences are of exceptional interest because this commonwealth alone in the entire Southern group was, until 1936, in a position to secure a speedy and efficient guiding of the budget through the legislature. It will be recalled that the budget was submitted only shortly before the opening of the fiscal year.

Few states, if any, have their legislative processes covering financial matters so closely guided by constitutional provisions as does this state. The Brookings survey summarized the pertinent sections as follows:

First, there is the provision that bills may originate in either house (Sec. 59). An appropriation bill must set forth definitely the maximum sum thereby authorized to be drawn from the Treasury (Sec. 63); such a bill may be passed only by the votes of a majority of all the members elected to each house (Sec. 64). A bill granting a gratuity or donation in favor of any purpose or object may be enacted only by a two-thirds vote of the members of each house (Sec. 66). Revenue bills require a vote of three-fifths of the members of each house present and voting (Sec. 70). No new bill may be introduced during the last three days of the session (Sec. 67); and no appropriation or revenue bill is to be passed during the last five

authorization, and in New Jersey the legislature regularly adjourns for about ten days immediately after organizing in order to give the party leaders time to develop their legislative programs. Texas has divided the legislative session into three parts since 1930. The first thirty days are devoted chiefly to the introduction of bills; then comes a thirty-day period of committee hearings; and during the remaining sixty days bills are debated and passed. There is no legislative recess, however. In 1933 the constitution of Georgia was amended to provide for two sessions in each regular legislative year—a ten day session in January and a longer session, limited to sixty days, in July. *Madonald, op. cit.*, p. 202.

days of a session (Sec. 68). At regular sessions, appropriation and revenue bills have precedence over all other business (Sec. 69). A two-thirds vote of each house is required to overrule a veto (Sec. 72). Finally, there is the section (Sec. 69) which prescribes the scope of appropriation bills:

"General appropriation bills shall contain only the appropriations to defray the ordinary expenses of the executive, legislative, and judicial departments of the government; to pay interest on state bonds, and to support the common schools."

"All other appropriations shall be made by separate bills, each embracing but one subject. . . ." ¹⁰

The framers of the State Constitution undoubtedly had in mind careful consideration of budget items, particularly those dealing with revenues. The procedural steps that are noted are also suitable to orderly and prompt passage of the appropriation bills.¹¹

It is evident from experience that the prompt action that was so essential for the Mississippi system has been neglected and that the introduction of the appropriation bills as well as their passage has been a delayed and slow process. The Brookings experts pointed out that in the decade prior to 1930 the General Appropriation bill was introduced with an average delay of twenty-five days. The deliberations are equally slow.¹²

The fact that the Treasury and the spending agencies are severely embarrassed by the delays has not provided any coercive influence on the legislative processes. The record is poor.

In 1928, the General Appropriation Bill was finally passed on the thirty-first day of the session, seventeen days after its introduction. This is the best record in the last seven sessions. The worst record is that of 1930; a final vote on the eighty-eighth day on a bill introduced as late as the thirty-fifth day,

¹⁰ Brookings Institution, *Mississippi Survey*, *op. cit.*, p. 360.

¹¹ The procedures as outlined in the Brookings Survey (*ibid.* pp. 361-362) are of the usual state pattern:

Appropriation bills are introduced in both houses, considered by committees, discussed on the floor, and put to vote. In the House of Representatives appropriation bills are referred to the standing Committee on Appropriations of twenty-nine members. This Committee is broken up into sub-committees for the consideration of particular estimates. Conferences are held which the spending officers, and interested persons may attend. In some cases joint sessions are held with one or another of the general standing committees which are concerned with the particular service under consideration. Some few appropriation measures are referred directly to the Committee of the Whole where they are considered in detail and reported for further debate on the floor. Revenue bills go to the Committee on Ways and Means, also of twenty-nine members. In the Senate there is a standing Committee on Finance in two divisions, designated "A" and "B", each of eleven members. This Committee usually acts *en bloc*, or as a unit; in some few cases bills are referred to one or the other division. About half of the appropriation bills, however, go directly to the Committee of the Whole, including all such bills, except refund bills, originating in the House. Most revenue bills of whatever origin are referred to the Committee of the Whole.

¹² *Ibid.*, p. 361.

— fifty-three days in process. For the seven sessions under consideration the average length of time in process was thirty-three days, but this figure is made unduly low by reason of the abnormally short period of three days in 1922.¹³

Joint Committee arrangements would have been only mildly effective in removing some of the delays that were encountered.

At present the State's procedures provide seven months for the legislative deliberations. In the absence of a method of provisional votes on account the State's inadequate temporary financing techniques, if they may be thus labelled, led to an impossible situation.¹⁴ Without discussing what the legislature has been voting and how the question of fiscal policy has been treated, it is evident that the legislative processes have been defective. There is nothing in the legal background that necessitates the tardiness and the delays. On the other hand the requirements have not succeeded in giving to the state the legislative processes that it requires. It is, furthermore, evident that a suitable tradition is also lacking. The result is that the State, in changing the opening of its fiscal year from January 1 to July 1, has sacrificed an exceptional opportunity.

In Montana an interesting timing factor is noted. In addition to the usual prohibition upon the consideration of appropriation bills other than the budget bill until the latter has been passed, there is found a restriction that on the thirtieth day of the sixty-day session the budget bill must be considered to the exclusion of all other bills.

In New Hampshire the only fact worthy of mention here is that the appropriation bill becomes law usually as early as May, shortening somewhat the usual delay. There are no elements of interest in New Jersey's present practices. It is however significant that in reference to this State, the Institution of Public Administration's experts in 1929 suggested that three weeks would suffice for legislative deliberations on the budget bills after they had been released from the Committees.¹⁵

Ohio belongs to the small group of states that begin their discussions after the opening of the fiscal period. Its particular time problems are discussed below in relation to this extraordinary condition.

In Oregon a similar condition is found. The opening of the fiscal period on January 1 precedes the opening of the legislative session by approximately two weeks. The time problem will be discussed below. Pennsylvania offers no departures from the established norm for this group. Rhode Island differs from the others only with respect to the fact that after committee endorsement of the bill it goes to the House and no other expenditures may be authorized until the budget bill has been passed, except in case of emergency.¹⁶

¹³ *Ibid.*

¹⁴ See p. 513.

¹⁵ Institute of Public Administration, *New Jersey Survey, op. cit.*, p. 56.

¹⁶ R. I. Pub. Laws (1929) c. 1349, § 7.

The statute indicates that the Governor is to determine whether an emergency exists.

Of the two remaining Western States, Utah follows the usual pattern. In Washington the basic budgetary law makes no provisions for the procedure to be effective after the budget has been submitted. Usual legislative practices determine the practices that are outlined in the appended chart. In neither State does the duration or the priority time limit exist. Although Washington's fiscal year begins on July 1, the sixty-day limitation on the length of its session does not create any necessity for exceptional measures. In this jurisdiction, as in a few other states, it may be noted that the somewhat compact relationship between submission, adoption, and the opening of the fiscal year could be achieved without any basic hardship or difficulties if the three months lag were eliminated.

New York

New York's procedures may be taken as typical. Appropriation bills and revenue measures are referred to the various Committees immediately following their submission. At the regular hearings the Governor and the heads of departments have the right and duty to be heard by each Chamber. New York neither limits the length of the legislative session nor does it place any restriction on the duration or time of the legislative action on the budget. In order, however, to facilitate the financing of State needs, provisions are made for the privilege of the Governor to recommend that one or more proposed bills be passed in advance of the others. Furthermore, as a part of its legally protected executive budget, neither House may consider further appropriations until the appropriation bills proposed by the Governor are finally enacted. These refer to those contained in the budget bills.

Summary

The advantages that might accrue to New York if its legislative methods and procedure were modified cannot be definitely determined. The experience with political factors disrupting the smooth functioning of its present practices makes any conclusions difficult. The extent to which partisan rivalry has disrupted the legislative organization and procedure cannot be minimized. It may be wise at this point, however, to summarize some of the practices and provisions noted in other governments and to discuss their applicability to New York's requirements. At the outset it may be noted that the largest field for reform lies in revision of committee arrangements and other organizational procedure. Conclusions and recommendations with respect to these arrangements have been presented in a previous chapter. The most important reform, which can be discussed without regard to the particular problems of each jurisdiction, are those that deal with the timing aspects.

If the time of the submission is delayed and a compact relation-

ship of voting to the opening of the period is desired, the states must provide for speedy and effective deliberations. Split sessions and systematic procedures, both in committees and in plenary sessions, may be of assistance. If the dates of preparation and submission are revised so that the executive budget messages are introduced near the beginning or after the opening of the budget periods, it will be of particular value in the elimination of needless delays. It appears that Massachusetts alone can qualify for consideration as a model state in connection with its legislative procedures.

CHAPTER XXXIX

EXECUTIVE VETO POWERS OVER BUDGETARY LEGISLATION

In most jurisdictions, including the United States, before the voted program becomes effective it must be approved by the executive. Students of budgetary problems have therefore concerned themselves with this condition. In connection with the desire to advance and continue the philosophy of executive budgeting, attempts have been made to give executives exceptional powers of review over budgetary items. Because of its minor significance in the main problem under study only brief mention of the subject is made in this report.

The writer has had no opportunity to study the problem of foreign governments with respect to the veto power of the executive. The problem of the change in ministerial governments and the existence of dictatorial executives would lessen the usefulness of such attempts. The only nation, therefore, for which such information has been made available is the United States.

United States Federal Government

For the federal government it is known that the President must accept or reject an appropriation bill in its entirety and cannot veto specific items.¹ It has been recommended in several quarters that the President receive the authority, which the Governors of a great number of states have, to veto individual items or sections of a bill.² The conferring of such powers

¹ Willoughby quotes an authority (Henry J. Good, *Cost of Our Government*) who has maintained that the President has such legal power. This does not represent the consensus of opinion, and the idea is not supported by Willoughby himself. (Willoughby, *op. cit.*, p. 18.)

² Some time ago through a referendum vote the Chamber of Commerce was committed to the proposal that:

The United States Constitution should be so amended as to permit the President to approve or disapprove any separate items or provisions contained in any appropriation bill.

As is well known, appropriation bills at times contain objectionable items and, notwithstanding parliamentary rules to the contrary, extraneous matters known as "riders" are also attached. The President under present conditions has little discretion with respect to these items, since, if he vetoes a bill because of them, he is likely to paralyze the administration through lack of funds.

A grant of power of this character would be no innovation in the American political system. Congress has already approved the principle in authorizing the chief executives of the Philippine Islands and Puerto Rico to veto individual items in appropriation bills, and about three-fourths of the states have given similar power to their Governors. *Report of the Special Committee on Federal Expenditures, op. cit.*, p. 16.

appears to be in the best interests of fiscal efficiency. It is fortunate that the states have not all followed the current federal practice of limited veto powers.

State Governments

The American states may be grouped in three categories with respect to their veto practices. We have first the small group of states that have eliminated the necessity of wide veto powers because they believe that they have avoided the need of any post-voting moves on the part of the executive. New York is representative of this first group. Budget appropriation bills over which, as has been already noted, the legislature has no power to raise existing items or present new items, become law when passed by both Houses. No further action by the Governor is necessary. However, the appropriations for the legislature and the judiciary as well as for separate items outside his budget bill are subject to his veto. It should be noted that New York State allows item approval for those expenditures subject to the veto provisions. While New York's Governor is empowered to approve individual items as well as to pass on bills as a whole, he may not veto an item if his veto will result in increasing an appropriation. That is, the Governor may not disapprove any act of the legislature in cutting or eliminating an item. Assuming that the legislature has done its duty with respect to voting a balanced program, it is protected against any gubernatorial nullification of its efforts.

In West Virginia and Maryland, also in the constitutional executive budget group the budget bills, with several minor exceptions, become law as soon as passed by both Houses.

A small group of states gives the governor the usual veto powers but restricts the executive, as the President of the United States is restricted, to the approval or disapproval of appropriation bills as a whole. Item vetoes are not permitted. The states that impose this limitation are Indiana, Iowa, New Hampshire, North Carolina, Rhode Island, Tennessee, and Vermont.*

Massachusetts belongs to this category only because the Governor's item veto may be over-ridden under the same condition as those under which the appropriations were originally passed. This tends to reduce the item veto powers of the Governor to a mere advisory function.

The rest of the states allow the Governor the privilege of item veto. A few states including California give the Governor the power to reduce as well as invalidate the budgetary bills. In the majority of the states the vetoes are made more effective by virtue of the fact that the legislature may override the governors' vetoes only with a higher vote than was necessary when the bill was originally passed. A two-thirds majority is customary.

* W. F. Willoughby, *Principles of Legislative Organizations and Administrations*, (Washington, 1934), p. 50. Willoughby erroneously includes Wisconsin in his list.

Michigan is one of the states that specifically restrict the Governor's veto power and do not permit him to modify items. Missouri does not allow the Governor to reduce an appropriation for the public schools, although he may approve or veto the funds for such activities. Kentucky provides that the State agencies may continue to spend for ordinary recurring expenditures, if the Governor vetoes an item required by the law. New Jersey is one of the few states that do not require a higher than normal vote on the part of the Legislature when it overrides a veto. As in Massachusetts, a majority vote in both Houses is sufficient to nullify the Governor's efforts.

A survey of Pennsylvania's practices describes what may be considered to be the ideal veto procedure.

Deficiency appropriation bills reach the Governor during the early part of the session of the General Assembly. He has power of veto over them conferred by Article IV, Section 16 of the Constitution. The amounts he approves are a first claim against the available funds as estimated in the budget estimates of receipts.

Bills covering appropriations may reach the Governor at any time during the Session, whereupon he takes such action as is necessitated under Article IV, Section 16 of the Constitution. However, the bulk of appropriation bills, including the general appropriation bill, which carries the amounts for general government, reach the Governor toward the end of the Session due to the immense amount of study and consideration which must be given them by the General Assembly. It is a necessary part of the budget system that most of the appropriation bills reach the Governor so that he can consider them individually and in total at one time.

After considering each bill individually, he regards the total, taking into consideration the deficiency appropriation bills and sporadic appropriation bills he has already approved. The final total of all must be brought within the estimate of revenue. To do this it is often necessary to veto bills in total or in part because of "insufficient state revenue." The final approval of all bills establishes the Budget for the ensuing two years.⁴

Summary

The value of veto powers cannot be estimated unless the ability and interests of the executive are known. In the final analysis, the power of the legislature to override the executive veto is not to be minimized. The utility of the veto device as a check on legislative spending depends, therefore, on the legislative support that the executive can secure. While few states have followed New York in limiting the need of veto powers through limiting the legislature, it will be shown below that a very large group

⁴ Townsend, *op. cit.*, p. 2.

of states have gone beyond veto powers in allowing the executive the right to modify appropriations after they have been voted.

Following the line of reasoning that has been offered in defence of executive budgeting, it appears desirable that executive powers with respect to vetoes be enhanced. Certainly item vetoes should be permitted since they allow selective economy efforts on the part of Governors through the application of knowledge gained through experience in budget preparation. Another practice that should receive more widespread approval is one giving the Governor the right to reduce as well as to eliminate individual items.⁵ The states would thereby remove another remnant of the horizontal cut philosophy that seems to underly most economy efforts.

⁵ The model Constitution prepared by the Committee on State Government of the National Municipal League confers on Governors the power to exercise vetoes in the direction of reducing and deleting items in expenditure bills. (Sec. 50.)

CHAPTER XL

THE VOTING OF SUPPLEMENTARY AND DEFICIENCY ITEMS

Problems of Deficiency and Supplementary Items

Continuing the discussion of the various procedures related to the adoption of the budget program, which have an important influence on the ability of the legislature to adopt a balanced program, the question of the submission of supplementary estimates outside the scope of the regular budget is next approached. In legislatures where there are no restrictions on the power of the members to initiate expenditure items the term is used to describe expenditures that are introduced by the legislators and voted after the adoption of the regularly submitted budget. The term does not cover recommendations made by legislators when dealing with the regular budget submitted by the executive, but it does include proposals made by the executive or the budget authority after the major program has been submitted. In contradistinction to deficiency items, which refer to the current period, supplementary items refer to the same period as that covered by the regular budget program.¹

From the point of view of the survival of an executive budget program and of sound fiscal planning by the legislature, the importance of the procedures regulating the adoption of supplementary items cannot be overemphasized. Supplementary items are frequently necessary and desirable. They may represent timely adjustments of revenue or expenditure plans. They may mean careful revision and modification in terms of new developments. It is inconceivable that both the executive and legislators should be denied the chance to propose measures after the budget is submitted or even voted. On the other hand supplementary voting, like deficiency items, may be symptomatic of poor planning and of estimates prepared too far in advance of the period to which they refer. The American experience shows this clearly. It is essential, therefore, that supplementary items, which usually tend to disrupt fiscal planning, be reduced to a minimum and their adoption surrounded with safeguards.

In national governments supplementary budget voting is important because legislatures meet frequently and remain in session for long periods. There are many opportunities for expenditure items to be adopted after the regular balanced program has been concluded. This is especially true in countries such as the United States, where the procedure is vague and ill-defined and not subject to specific requirements on legislating the program proposed by the President. The entire program is subject to unpredictable

¹ One reason for such confusion as exists is that so-called deficiency appropriation bills frequently include supplemental items. Such, for example, is the practice in the federal government of the United States.

changes, which are frequently made without relation to the previously submitted plan. Failure to stress this aspect of legislative action in such countries results in giving a distorted picture of the development of executive budgeting. This recalls the fact that documents showing executive budget proposals have been criticized because of their false relation to the programs actually promulgated.

Voting Supplementary Items in National Governments

A few nations have succeeded in adopting procedures that bring the various supplementary items under control through the device of supplementary or corrective budgets. The latter terms describe minor budgets used to include the various estimates that otherwise would be subject to haphazard and uncoordinated legislation. The countries that apparently have met with some measure of success in solving the supplementary budget problem include Denmark, Rumania, and Sweden. Germany as a republic may also be listed.

Denmark

In Denmark, just before the beginning of the fiscal period and after the regular budget has been voted on, a supplementary budget is introduced and passed. It comprehends, in addition to changes in the recently voted budget, such deficiency items as are needed for the period about to close and have been omitted from the regular budget. A procedure in all respects similar to that of the regular budget is followed for the supplementary budget. Supplementary items are seldom introduced outside the scope of this budget, for which a supplementary finance act is passed. Thus under the Danish system isolated, measures which may disturb a carefully planned program, are avoided.

Germany

In republican Germany there appear to have been no restrictions on the amount of supplementary estimates that the Reichstag could have adopted or on the time when such estimates could have been introduced. However, the usual restrictions to which the regular budget and its items were subjected were also applied to the supplementary budgets, a procedure in some respects similar to the Danish type. Most of the measures, which otherwise would have been voted individually and would not have been subject to the usual concentrated interest in expenditure-revenue relations, were viewed together. To a certain extent the supplementary budget or *Nachtrag zum Reichshaualtsgesetz* was considered a distinct fiscal measure covering a minor program and was not treated as a mere addition to the regular budget already voted.

Rumania

Rumanian procedure attempts to delimit and restrict the amount of supplementary credits that may be voted. At a particular time

all estimates for suggested changes in the voted budget are introduced. Occasionally the volume of changes and their scope are such that a corrective budget must be voted, replacing, instead of modifying or supplementing, the original program. Such a budget was used in 1937 but its use is not frequent.

Sweden

Finally, in Sweden we find that supplementary estimates may be legally submitted at any time. There is, however, a corrective and annual supplementary budget in which the estimates tend to be concentrated. Sweden's extensive public works program has been responsible for introducing the need for considerable elasticity in appropriations and has also led to extensive recourse to supplementary items. The supplementary budget is coordinated with the general program already voted.

In none of the countries that seem to have taken steps to avoid the worst abuses and dangers inherent in the practice of haphazard supplementary appropriation voting are there any provisions such as those found in the American States. These latter units require the legislature (or the executive if he initiates the supplementary estimates) to specify the source of the revenues needed to finance the new outlays.

United States Federal Government

The countries for which the procedures have already been noted tend to proscribe such supplementary estimates. Failing in that, they attempt to segregate and assemble them, and subject them to designated and orderly procedures. There is no doubt that these methods, except in the case of fiscal crises or emergencies, are indeed advisable. The procedure may be contrasted with that in the United States national government in which no effective restrictions or traditional limitations exist. Any time during a session of Congress supplementary authorizations and appropriations may be submitted. The deficiency items are submitted in the regular budget. Hence a special budget is not necessary. There is a somewhat ineffective provision requiring that recommendations to remove the impending deficit must be made by the Executive if the funds for the execution of the supplementary estimates are not already available. This is similar to the recommendations that the President must make to cope with a particular deficit. As we have already noted, his recommendation that the deficit be tolerated appears to suffice. Nothing is required of the legislature for the items that it initiates. There have been recommendations for modification of the provisions since they tend to disrupt the orderly development of the executive budget and have been a known source of weakness in the federal financial system.

The 1921 Budget Act improved the old system by requiring the President (through the Budget Bureau) to approve of any estimates for supplementary appropriations. The chief benefit of this change was to enable Congress to distinguish supplementary from

deficiency items. Evidently, prior to 1921 it was unable to do this.

The Chamber of Commerce Committee stressed the rôle of supplementary appropriations in the unbalancing of the federal budget. It stated in its report:

While there is no question of the right of Congress to make such authorizations or to vote the required funds, nevertheless appropriations of this character as now handled are one of the most disturbing factors to well ordered budgetary procedure.

As far as possible, actual appropriations for those activities requiring supplementary grants should be deferred until near the close of Congress. Since it is frequently not contemplated that these activities will begin until the next fiscal year, delay would work no hardship in many instances. The proposed supplementary grants should then be considered by the Budget Committee, coördinated with each other and with the regular supply appropriations, and included in the aggregate which this Committee recommends shall be appropriated.²

The Committee's proposals would introduce a practice similar to that noted in Denmark. In general the plan recommends the segregation of all revisions and new items. It desires to subject them to a planning and review that will enable the enacted measures to fit into the scheme of the budget already voted.

Great Britain

Many other countries also fail to apply orderly procedures to the supplementary estimate problem. In Great Britain such estimates may be submitted at any time during the session of Parliament, and would include those that are submitted to Parliament sometime after the voting of the regular budget during the summer months. The British procedure tolerates corrective budgets and there have been one or two total revisions of the fiscal program, because of emergency factors, after its adoption. Such budgets may be opened by the Chancellor at any time during the session and they are valuable in providing for an orderly means of a general revision of all fiscal plans made necessary by new developments. An entirely new budget program, replacing one voted the previous spring, was adopted in September, 1932. It is needless to consider the British procedures in detail because the limited power of Parliament places the entire responsibility for any disturbances of the original budget program on the government.

The Empire Group

The British dominions tend to follow the procedures found in Great Britain. In Australia and Canada supplementary estimates are not subject to any legal or traditional procedures.

² *Report of the Special Committee on Federal Expenditures, op. cit., p. 20.*

In New Zealand there is a practice calling for the introduction of supplementary estimates just before the session closes and providing for dealing with them in appropriation acts. In the Irish Free State similar conditions are noted. There is, however, a tendency in that country to show a concern over the financing of such measures. In case an exceptionally large amount of new expenditures is voted a corrective budget is called for. Only one such budget has been required since the adoption of the present procedures in 1922. For the fiscal year 1931-32 a corrective budget was used.

The real lessons to be learned from the British-type systems are not in the voting but in the control over estimates that may be submitted to Parliament. The value of truly executive budget systems may be recognized here. In connection with Irish procedure the following section of the annual "Finance Circulars on Savings and Supplementary Estimates," which are given to the spending agencies, is of interest.

If it is expected that unavoidable expenditure will be incurred in the year in excess of the amount of the existing Vote, I am to request that the Minister may be informed as soon as possible and a draft estimate should be accompanied by full explanation of the causes which gave rise to the anticipated excess, but the Minister's assent to its presentation to Dail Eireann cannot be assumed and steps must be taken at once to exercise such control over expenditure that the original provision is not exceeded without his prior sanction.

In preparing a Supplementary Estimate, the following directions should be observed. If savings be expected on any of the expenditure sub-heads of the Vote such savings should be clearly stated and explained in a covering letter and allowance should be made for them in estimating the deficit to be made good. Similarly, if receipts and appropriations-in-aid of the Vote are expected to yield a larger sum than that which was included in the credit sub-head of the original vote, allowance should be made for the additional receipts by deduction from the deficit which should then be shown at both its gross and net amount.

Particularly attention is called to the fact that in the case of a Vote having a credit sub-head, the gross expenditure sanctioned in the original Estimate cannot be exceeded merely because surplus receipts have accrued sufficient to cover the amount of the excess. The authority of the Dail Eireann must be obtained by means of a Supplementary Vote to enable additional receipts to be applied to meet any expenditure in excess of the gross amount originally authorised.*

Careful analysis evidently underlies Treasury control of any additional estimates that are submitted. Parliament's accept-

* O'Connell, *op. cit.*, p. 106.

ance of any proposals need not be construed as symptomatic of endeavors to correct inherent defects in budget program planning or voting.

In other countries supplementary estimates may be submitted at any time during the legislative session. There are no provisions for corrective or supplementary budgets which consolidate such estimates. An occasional restriction, such as that found in The Netherlands, is noted. In that country, in order to maintain the balanced program already approved, it is customary for Parliament to provide funds for the newly-voted items and to finance them by means of decreases in items already voted. There is no legislation that makes such action mandatory.

It should be indicated that in several countries the desire for voting added items is eliminated by the fact that only reserves may be used for the financing of these activities. Such a situation is noted in Turkey. In the event that the supplementary estimates involve additions to already voted items, they are tacked on to the regular budget as supplementary charges. However, items are increased only if they do not exceed financial capacities and the resources of the regular reserve funds.

3 Summary

Because the national legislatures are in session for long periods the flood of supplementary items at regular sessions cannot be avoided. There appear to be some practices that may minimize the disadvantageous aspects. One, already noted, consists of the segregating and grouping into the form of a supplementary budget of all items that may be offered as new items or as amendments. The purpose of such a step would be to subject such measures to as many procedures as the regular budget program has undergone. This method recommends itself highly for units in which the legislature is in session for any length of time after the program has been voted. The federal Congress' practice is a case in point. The short sessions of many American state legislatures tend to reduce any possible universal recommendation of this practice.

Whenever economic disturbances or other unpredictable events of major effect require important modifications in a voted program, patchwork should be avoided whenever possible. One way to prevent such a state of affairs is to provide for a corrective budget. This implies a new budget program which may involve a completely new approach in some elements of the plan. A few foreign nations have had experiences with these supplementary budgets, sometimes referred to as rectification budgets. The biennial budget states would do well to consider corrective budgets when they meet at special sessions for some major financial legislation. It should be noted that corrective budgets, when considered as a means of revision after a voted program has already gone into effect, deal primarily with what are in reality deficiency items.

¶ Voting Supplementary Items in State Governments

In the American states the restrictions upon new expenditure items that the legislature may upon its own initiative adopt have already been noted. In keeping with the definition of supplementary estimates adopted for purposes of this discussion, we find a number of practices that are required in the case of additional estimates submitted by the Governor or his budget-making authority sometime after the regular budgetary estimates have been introduced and adopted. There are apparently no states that prohibit the introduction of such items by the governor. The restrictions that are present refer primarily to the availability of funds for their financing. With respect to limitations placed upon the legislature only those embodied in state constitutions are really restrictive. However, in budgetary matters it has repeatedly been noted that tradition may have a greater force than statutory requirements. For this reason the numerous provisions, which legislatures may disregard if they wish simply by amending statutes, are also surveyed. In general the efforts to prevent wholesale unbalancing through the medium of supplementary appropriations include those that hamper the introduction of bills near the close of the session. The usual type of restriction is represented by those which state that any additional appropriations must be embodied in separate bills, each limited to a single purpose. Furthermore, each bill must carry a special tax or otherwise specifically provide money for the total amount of the appropriation. Occasionally such bills must be passed by a vote of a special majority of the entire number of each house.

Alabama

Alabama, for example, is typical in its statutory requirement that the Governor must present supplementary estimates to cover the appropriation needs for laws enacted after submission of his budget. There is a further provision that such estimates must be accompanied by a statement of facts and the planned sources of revenue.

California

Another type of restriction is one found in California. Any proposals to amend or supplement the budget must be considered by the committees to which the related budget bill was originally referred. This tends to prevent the Governor or legislators from slipping through legislation that has originally been withheld because of the known antagonism of a particular committee.

Delaware

In Delaware neither House may consider further special appropriations until the budget appropriation bill passes both Houses. The restrictions designed to prevent deficits include also provisions that total appropriations may not be increased to

exceed revenue estimates given in the supplementary budget. Appropriations, however, may be voted at any time if they fall within total revenue estimates.

Georgia

Georgia is more specific in its balanced budget provisions, inasmuch as it allows no supplementary item to be brought up unless revenue is concurrently provided by a tax. This is designed to overcome the usual solution of the financing problem achieved by means of a reference to existing or expected funds.

Illinois

Illinois has a constitutional requirement for a larger vote on such supplementary estimates than is normally required to pass a budget bill.⁴ This tends to decrease the number that may be voted. It implies the same type of support of the Executive's budget program as is found in connection with executive veto powers.

Iowa

In Iowa it is the Governor's duty to transmit supplementary estimates that may be required on account of laws passed after submission of the budget, or that may be in the public interest. Such estimates must be accompanied by reasons therefor, and, if necessary, by recommendations for additional revenue.

Massachusetts

Massachusetts is one of the few states that provide for a single supplementary appropriation bill in which all supplementary estimates tend to be concentrated. Special appropriation bills may, however, be enacted outside the supplementary appropriation bill.

Nevada

In Nevada the relevant statute reads:

No supplementary appropriations shall be valid unless the amount in the state treasury is available for such appropriation, unless the legislature making such appropriation shall provide the necessary revenue by a tax, direct or indirect, to be laid and collected as shall be directed by the state legislature.⁵

⁴ Each General Assembly shall provide for all the appropriations necessary for the ordinary and contingent expense of the government, until the expiration of the first fiscal quarter after the adjournment of the next regular session, the aggregate amount of which shall not be increased without a vote of $\frac{2}{3}$ of the members elected to each House, nor exceed the amount of revenue authorized by law to be raised in such time. *Ill. Const.*, art. IV, § 17.

⁵ Nev. Stat. (1919) c. 45 as amended.

West Virginia

West Virginia has a somewhat elaborate series of provisions. Each supplementary appropriation bill must carry a tax sufficient to cover the cost thereof, unless it appears that sufficient revenue is already available. However, this must be considered in connection with time and other limitations on the legislature, already noted. In this State they indicate, in addition to the financing measure, that neither House may consider any supplementary appropriations until the budget bill has been finally enacted in both Houses. The requirement for the limitation of each separate bill to some single work, object or purpose is likewise found.⁶

West Virginia's Constitutional provision is identical with that found in Maryland. The first mentioned State also provides in its statutes for a restriction on the introduction of supplementary estimates by the budget-making agency, namely the Board of Public Works. Before final action by the legislature, but only with its permission, may the Board amend or supplement each budget bill. It should be noted that the provision refers to original budget proposals that have not been finally enacted by the legislature.

New York

New York restricts the Governor as to the time of the transmission of supplementary estimates and of revisions of his submitted estimates. The Constitution provides that the Governor, before final action by the Legislature and not more than thirty days after submission of his original budget, may amend or supplement his original recommendations. However, with the consent of the legislature, he may submit supplementary bills any time before adjournment. The effect of this provision is to nullify the effectiveness of the time limitations since the consent

⁶ Neither House shall consider other appropriations until the budget bill has been finally acted upon by both Houses, and no such other appropriations shall be valid except in accordance with the provisions following:

(1) Every such appropriation shall be embodied in a separate bill limited to some single work, object or purpose therein stated and called herein a supplementary appropriation bill; (2) each supplementary appropriation bill shall provide the revenue necessary to pay the appropriation thereby made by a tax, direct or indirect, to be laid and collected as shall be directed in said bill unless it appears from such budget that there is sufficient revenue available; (3) no supplementary appropriation bill shall become a law unless it be passed in each house by a vote of a majority of the members present, and the yeas and nays recorded on its final passage. Each supplementary appropriation bill shall be presented to the Governor of the State as provided in section fourteen of article seven of the Constitution and thereafter all the provisions of said section shall apply.

Nothing in this amendment shall be construed as preventing the Legislature from passing in time of war an appropriation bill to provide for the payment of any obligation of the State of West Virginia within the protection of section ten of article one of the Constitution of the United States. *W. Va. Const.*, art. VI, §51, sub-§E1.

of the legislature may frequently be considered as a demonstration of its approval of the measure. The legislators themselves cannot initiate measures unless the requirements of the Constitution are met. These, as has already been noted, deal with procedures and there is nothing to prevent the legislature from initiating and adopting a budget program entirely of its own choosing after the Governor's program has been discarded. The ability of the lawmakers to adjourn without having provided for a nominally balanced budget is commonly recognized. It appears, therefore, that the restrictions on the Governor and the limitations on legislative revisions may be classed with the provisions for supplementary items; without harmonious relations between the Governor and both Chambers of the legislature, deadlocks might ensue. The limitations are meaningless if they are designed to insure a survival of the executive budget program or the voting of a balanced program.

5 Summary

The problem of supplementary appropriations has not been as serious in the American states as it has been in foreign countries because of the fact that the states must operate with a number of requirements that prevent the legislature from unbalancing the budget, as far as any quantitative aspects are concerned. Recommendations for improving state practices, however, may be made. The states should tend to concentrate new expenditure proposals and their financing measures in a supplementary budget bill. This is far from being the case. Most of the state provisions dealing with the initiation of supplementary items by the Governor are significant only because the Governor's recommendations are the basis of all legislative action. What is required is a series of devices designed to aid the legislature in carrying out the demands imposed, by borrowing and other anti-deficit requirements. It would be most desirable if at some time near the close of the session and after the budget was voted a carefully planned and comprehensively considered supplementary budget were introduced.⁷ Executive budget leadership should certainly cover all items.

4 The Nature of Deficiency Items

The fact that the large majority of jurisdictions adopt their budget programs before the opening of the period to which

⁷ Towards the end of segregating requests for funds that are not included in the budget, the device of giving budget items priority is useful. The Model Constitution (Sec. 49) provides that:

No appropriation shall be passed until the general appropriation bill, as introduced by the governor and amended by the legislature, shall have been enacted, unless the governor shall recommend the passage of an emergency appropriation or appropriations, which shall continue in force only until the general appropriation bill shall become effective.

they refer places the voting of the majority of the supplementary budgets or items likewise in a period preceding the one to which they apply. In Great Britain and other jurisdictions in its group (excepting Canada and India) and in the small group of post-period voting states, most supplementary items are voted, as may be the regular estimates, prior to the opening, or during the early months of the current period. The attempt to classify supplementary and deficiency items is at the outset subject to qualifications if the time criterion is employed for distinguishing the two categories. It is still harder to separate these special votes if the activity of the legislatures at the middle or the end of the current period is observed. The terms "supplementary or corrective budgets" are justly used to denote major revisions made in an already voted and partly executed program. It is equally correct to use the term "deficiency items" to describe any additional outlays that are authorized after the period is well under way.

For purposes of this discussion the following characteristics will be used to distinguish deficiency items from the closely related supplementary type.

(a) Deficiency items are submitted towards the end of the period or at some regular time at which their consideration is concentrated. The British for example vote deficiency items at the same time that they do the votes on account. Unlike the latter, they are immediately or retroactively effective.

(b) Deficiency items may cover expenditures to be made or may denote legislative approval of expenditures that have already been made without specific prior legislative authorization. The "immediately available" appropriations that appear in the estimates submitted to the Governor of New York State are an example of the former, while in many national units the executive or the superior financial officers are allowed to authorize emergency expenditures, which subsequently receive legislative sanction.

(c) Deficiency items frequently refer to additions to already voted appropriations. As the terms "deficiency" or "excess vote" items indicate, some previously approved governmental function requires added funds for the carrying on of activities during the remainder of the year.

(d) Deficiency items are not usually financed exclusively from the funds that are made available for the current period. Because of their tardy appearance in the period they usually become associated with the budget projected for the next period and are therefore linked to the deficit or surplus from the current period, which is to be carried over. As a rule the items are linked to the votes for the future, not the current, period's finances.

From the point of view of budgetary policy and the maintenance of a balanced relationship between income and outlay, deficiency items are as potentially capable of causing disturbances as are the supplementary items with which they are so frequently associated.

Deficiency votes have a legitimate function since some categories of governmental needs and costs can be no more predictable than are revenue yields. A government cannot fail to deal with the issues created by unforeseen events and emergencies or with those that grow out of its own planning and voting inefficiency unless it takes the uneconomic and anti-social attitude which a fatalistic regard of budget estimates and appropriations must signify. Deficiency items are, therefore, both necessary and acceptable features of the soundest budgetary system and of the best available fiscal policy. They may again also be symptomatic of poor planning and preparation, of lax and careless voting, or of wasteful and extravagant administration. There can be no doubt that in the American states there are many extra appropriations made necessary because of reasons that fall in the latter category.

If the formulation of the expenditure proposals takes place years in advance of their execution improved time relationships may eliminate some of the deficiency items that are not linked to occurrences of an unpredictable character. Delays in planning and voting, shorter budget periods, more efficient estimating, reasonable reserve policies, and lump sum appropriations are but a few of the features that will obviate the abuses of the deficiency item practice. A host of other practices that can be linked to the execution of the budget are discussed below. The avoidance of these disturbing votes is to be sought, above all, in the adoption of financial programs that are better related to actual and probable economic and fiscal circumstances.

7 Voting Deficiency Items in National Governments

At this point deficiency items are mentioned because of the fact that they involve legislative action. In almost every jurisdiction some method of dealing with these appropriations, which are immediately or retroactively effective, is found. In those national governments in which legislative sessions are frequent and of long duration, and where legal provisions regarding financing media are absent, there is no need of tying up the deficiency votes with the regular budget bills. As a result a wide variety of rather loose practices characterize some of the better known national governments.

United States Federal Government

Buck has aptly described the situation in the United States federal government, which he notes as having long been a source of flagrant fiscal abuse.

In 1906 Congress undertook to cope with this abuse by the passage of the so-called "anti-deficiency act." This act forbade the departments and establishments of the national government to incur obligations not expressly authorized by law, and required them to control the rate of their expendi-

ture during the fiscal year so as to avoid deficiencies at the end. But the act was never enforced. The Budget and Accounting Act of 1921 also failed to meet the situation so that deficiency appropriations are still a problem.⁸

The problem, it may be added, is not properly solved as far as the adoption phases are concerned. When the spending agencies, through the executive budget officers, request Congress for appropriations for the current period, that body invariably passes the bills that it has been asked to approve. Thereby vast sums are annually authorized and added to the deficit or consume any accruing surplus. Only when a very large item, such as those that have been noted in the most recent years in connection with relief are voted, is there any concern over the source of the funds or the effect on the budgetary balance. The deficiency bill is passed along with the major appropriation bills for the coming period. As a result neither Congressional nor executive interest is centered on the additional items when they are approved, and no major impetus is given to remove the conditions that produce them. The fact that vast sums are poured out each year through the channels afforded by deficiency items cannot be traced exclusively to unavoidable causes and is a major symptom of an inadequate budgetary system.

While some of the underlying causes and their removal are more fully discussed below, a few legislative practices and other methods that tend to reduce the influence of deficiency items towards unbalancing budgets may be noted.

Sweden

In Sweden, for example, provisions are made in the Constitution for a Supplementary Budget. This Supplementary Budget is prepared and executed in the same manner as the Main Budget. Royal "propositions" to the Riksdag may be made during the first sixty days of the session, and "motions" during the first twelve. This means that the Supplementary Budget may be proposed not later than on the sixtieth day of the Session. The Supplementary Budget is of course not meant to be a supplement to the budget under consideration, but to the one in effect. Attempts are made to avoid other improvised budgets by special appropriations and appropriations for 'Unforeseen Expenditures,' and through the *lilla kreditivet*, a fund which according to the Constitution is available if the Riksdag cannot be summoned before it is needed. From this Fund emergency appropriations may be made, in the absence of the Riksdag, by the Cabinet in full attendance.⁹ As a result the deficiency items are reduced. For those that are unavoidable, a formal budget procedure assures careful legislative consideration, which cannot fail to result in centering legislative attention on the problem.

⁸ Buck II, *op. cit.*, pp. 221-222.

⁹ Sweden's Budget System, *op. cit.*, p. 9.

Great Britain

In Great Britain the solution, in addition to the general efficiency and advantageous time relationships of the system, appears to lie in the strict treasury control over items for which Parliamentary approval is requested. The items for the completion of the current years are submitted, as has been noted, with the votes on account, to be effective after April 1. This means that they are legalized in time for their inclusion in the accounts of the current year. The Chancellor includes the deficiency items and the Excess votes¹⁰ in the financial report that he submits at the close of the year. There is no carry over and no intermingling of the added outlays for the current year with those of the coming period. It is probable that the budgetary practices, if economic and other factors were shown to be irrelevant, might account for the small proportion of deficiency items and for the minor degree in which they contribute to an unbalancing of that nation's finances.

It is questionable whether any type of legislative process could compensate for the inherent defects in American state budgetary and fiscal systems. The basic defects are responsible for the major problem that the magnitude of deficiency items creates. Biennial budget periods and the absence of regular intervening sessions are conducive to the piling up of late-period needs for additional funds. The type of preparation and adoption practices that were noted are equally likely factors in causing the widespread abuses that are found with regard to such items.

5 Voting Deficiency Items in State Governments

For the time being the phases that are not linked to voting arrangements may be neglected. Do state legislatures display any useful devices to cope with the problem? It is apparent that they do not. As was seen in New York, it is not impossible to find instances in which sums known to be needed for payment of obligations in the next period are consciously omitted and anticipated as "immediately available" outlays in the next budget. This shifting of items, which was discussed in connection with budgetary comprehensiveness, is made possible by the acceptance of deficiency voting. It is unquestionable that this device of avoiding the stringent balancing requirements cannot be abolished by attempts to limit voting to bona fide deficiency items. Legislatures that use deficiency items to postpone and shift responsibilities are not likely to be actively interested in steps to close the avenues to such practices.

None of the states divorce the discussion of deficiency items from that of proposed estimates for the next period. Equally there is no special segregation of such items, a practice followed

¹⁰ Excess votes in the British type systems designate legislative reductions for expenditures, financed by dedicated revenues, which have been made in amounts exceeding those authorized by the voted appropriations-in-aid.

in Great Britain and Sweden. In New York, for example, the budget summary gives no indication of the amount of "immediately available" appropriations that are proposed. Schedule IV of the budget documents lists such outlays by organization units, but does not give any totals. New Jersey's document, which is one of the few generally good ones found among the commonwealths, indicates that the estimated deficit or surplus at the end of the current year does not take into consideration "the amount of any deficiency appropriations the legislature may see fit to make."¹¹ There is apparently no other mention of the items except a summary of those made available for the previous year. The legislature would probably have benefited from a greater interest in the problem.

It is doubtful whether any other state differs from either the New York practice of confusing the deficiency items with the estimates for the coming period or from the New Jersey scheme of considering them only in relation to a retrospective view of the accomplishments of the legislature in the previous year.

¶ Summary

It is suggested that deficiency items be segregated for submission, discussion, and voting. It is desirable that the legislature and executive actively consider them in relation to the expenditures and revenues of the current period. An ideal arrangement is one whereby the deficiency needs are voted before the new budget items are adopted. This is usually not done in Great Britain but is found in Sweden, where there is a time limit on their submission. A result of such a practice would be that legislators might learn, if they wished to do so, what the defects were in the last appropriations. If they want to take account of unavoidable errors and to care for the usual amount of new and unpredictable needs, they could provide revenues available for such items. Reserve funds and substantial and real surpluses would then eliminate the piling up of deficits and the carrying over of the financing burden to the new period. It is useless to believe that a legislature can provide revenues at will, and that it can provide for "immediately available" tax revenues as it does for such appropriations.

If budgetary techniques, fiscal policies, and all the other causal factors were perfected, deficiency items would then be restricted to legitimate purposes, and would be a successful way of providing for dynamic elements in state finances. The present arrangements are both contributing and symptomatic elements of defective systems.

¹¹ *Budget Message of New Jersey, transmitted January 14, 1936, (Trenton, 1936) p. vii.*

CHAPTER XLI

POST-PERIOD AND PROVISIONAL BUDGET VOTING

Bridging Delays Growing out of Tardily Adopted Budgets

The preceding discussion has indicated that in most of the British Empire budget systems and in that of The Netherlands the final voting of expenditures regularly takes place at a date sometime after the fiscal year to which they refer has begun. Furthermore, the absence of effective limits on legislative deliberations as well as the frequency of drawn-out debates, requires adjustment schemes in many jurisdictions in which they are not inherently part of the system. Several American states, including Idaho, Massachusetts, Ohio, and Oregon, were noted with respect to the time of the budget adoption as being in the same position as the British. Because of a mass of time limits of various kinds, and in most cases, lengthy intervals between the adoption of the budget bills and the beginning of the period to which they refer, provisional budget procedures are seldom needed or found in other American state commonwealths. Reference to post-period voting in the statutes or in the descriptions of budget systems that the writer has seen, are rare. In this chapter will be discussed the methods whereby those governments that regularly practice post-period voting arrange for sanctioning interrupted functioning of the public finances. It will be recalled that the desirability of delayed budget submission depends to a large measure on the efficiency of the practices to be described in this chapter. The provisions that are in effect for occasionally delayed voting will also be briefly analyzed.

National Government Procedures

Great Britain

The British system is briefly as follows: Sometime during March the Civil and Revenue Services in the supply group receive from Parliament so-called votes on account which authorize expenditures patterned on the budgetary estimates. The Defence Services have their regular supply voted at that time and begin the new fiscal year with their authorized outlays known to them. The needed moneys are made available out of the Consolidated Fund. The scheme for taxes, that according to the balanced scheme of the British budget are never left out of relationship to expenditure, has already been described. The votes on account cover expenditures for four months or more. Since the regular estimates have to be voted by August 5, the voting of a provisional supply for a period much in excess of four months is not necessary. Parliament usually receives the printed expenditure

proposals early in February, and has had ample time previously to analyze the estimates which form the basis for the votes on account. The Financial Secretary of the Treasury determines the proportion of the estimates that will be needed for the period. The votes on account are replaced by the regular appropriations as soon as they are voted since the latter are retroactive.

Important characteristics of the votes on account are that although they are based on the new budget proposals they can cover only existing services. A new cost but not a new function may thus be started through this medium of provisional financing. Needless to add, the practice has on the whole been successful.

Australia

In Australia the methods are almost identical with those of Great Britain. Just before the beginning of the new financial year a supply act that may be regarded as a temporary or provisional budget is passed. If the budget is delayed beyond the period that the supply acts have provided for, additional acts are passed. The government judges the period for which supply funds will be required. These, as well as the other phases of the procedure, are not subject to any statutory limitations. When the appropriation act is finally passed it re-includes the supply acts and makes funds available as of the beginning of the fiscal year. Schedules for customs and excise duties take effect from the beginning of the financial year. The whole system is not one that allows taxpayers to benefit from delays and to anticipate changes in a manner to enhance the avoidance of taxation. None of the spending agencies or the tax administration is embarrassed by the delayed voting.

Irish Free State

In the Irish Free State a provision that closely resembles that of the United Kingdom is found. Specific financial resolutions are passed immediately following the introduction of the budget speech, and these temporarily put into effect the taxation modifications that the budget speech carries. Supply service funds are financed through votes of account passed in the Chamber in March just prior to the opening of the fiscal period. Usually one-third of the total sum applied for is provided for before the end of March. This grants about four months' supply available from April 1. It is usually sufficient to bridge the period before the regular supply service funds are voted. New services, which have been included in the estimates under the authority of the Department of Finance but which did not appear in the previous budget, cannot be financed through the account voted. Therefore, a new item does not become effective until the estimates have been passed in

detail in the regular supply fund bill.¹ This apparently tends to prolong the closing of the fiscal period since the old budget is usually continued for a four months' period and new items may not be effective until the end of such period. One defect of the Irish system is that the lump sum voting makes some misappropriation possible.

New Zealand

In New Zealand permanent statutory enactments call for a procedure that differs from that in Great Britain. For the first three months of the new fiscal year, for which supply is not likely to be made available, the Minister of Finance may pay an amount not exceeding the unexpended balance of the vote for the last fiscal year plus one quarter of the total of such vote. If the period for which the regular estimates are not voted extends beyond three months Parliament is asked to supply funds by means of a provisional budget known as an Imprest Supply Act. The New Zealand practice tends to prolong the effectiveness of the older budget beyond its

¹The following passage from O'Connell's study describes the Irish practices:

A Vote on Account may be described as a temporary and unappropriated grant of supply to the government, to enable it to carry on the various approved Public Services until such time as the Dail has had an opportunity of discussing and voting the different resolutions for the granting of supply for each Public Service. The Department of Finance prepares a statement showing, without details for each Vote, the total net Estimate for the year, together with the amount required to carry on the service until such time as the net estimated amount will have been passed by the Dail. The "Standing Instructions to Accounting Officers" sets out the following Regulations to be observed in the preparation of the Vote on Account:

1. The Estimates Circular is accompanied each year by a form on which must be inserted the total requirements for each service for a period of four months from the 1st of April. The form, duly completed, must be returned to the Department of Finance by 1st January if possible, and in no case later than 1st February.

2. A full explanation must be given in any case where it is considered necessary to ask for a Vote on Account exceeding one-third of the total Estimate.

3. Under no circumstances can provision for a new service be included in the Vote on Account. O'Connell, *op. cit.*, p. 11.

Concerning the nature of a Vote on Account, the following points are noted by the same author:

(a) As the Vote presented to the Dail contains the totals of each Vote, no alteration can be made in the total of any Estimate after it has been so presented.

(b) Provision for any new service cannot be made in a Vote on Account, and by "any new service" is meant any service not previously approved by the Dail. Hence, even if the Estimate itself includes provision for any such new service, it cannot be begun until the Vote making provision for it has been passed by the Dail. In very exceptional cases, however, the Department of Finance may authorize the initiation of such a service pending the passing of the Vote authorizing it.

(c) The Central Fund Act legalising the Vote on Account authorises the total amount as demanded without appropriating or allocating that amount for any definite or detailed purpose. *Ibid.*, p. 13.

regular period even more than do the British, Australian and Irish procedures. This is seen in the fact that the Minister of Finance has no power to make any adjustment in payments for services for which provision has been made in the appropriation act of the preceding year.

Union of South Africa

In the Union of South Africa Parliament is called upon to grant votes on account. A so-called Part Appropriation Act is voted in March. As in the other nations in this group no expenditures for new services may be authorized.

It will be recalled that Canada and India, the remaining members of the British group, do not periodically require provisional financing.

The Netherlands

The Netherlands is the only country, aside from those already mentioned, that provides for a budget normally to be voted after the period has begun.² Provisions that are voted empower each Minister to continue to make expenditures on a pro rata basis. The expenditures are measured by the prior year's budget and are voted for a period not to exceed four months. The appropriations are retroactively effective and mirror the changes that the budget for the new fiscal period may effect. By making the new estimates retroactive and using the old one for the first four months there might be some difficulty in the case of items for which increases or decreases have been made. Undoubtedly some form of administrative control exists.

The fact that these nations have their legislatures in session prior to the opening of the period enables them to provide for necessary outlays and financing policies. New Zealand alone fails to require specific legislative action and prolongs its old budget. If legislative sanction can be received, it would be well to provide for revisions of the old program through such action.

State Government Procedures

There are only a few American states in which a regular method of bridging the interval between voting the fiscal period and the opening dates, if such bridging is required by circumstances, is found. None of the efficient procedures that are found abroad is noted. The difficulty here, as in the other countries, arises out of the fact that the legislatures are usually not in session before the period opens. Before the practices of the individual states are viewed it should be mentioned that

² Belgium is not included in this group because its system does not provide for submission or voting after the new period has begun. Actually the Belgians invariably pass some provisional expenditure acts. The same is almost true in France.

in the jurisdictions in which some phase of the fiscal system is operated in financial periods that differ from that of the regular budget, there is a possibility that post-period voting may be involved. For example, in New Jersey the appropriation acts are voted before July 1, on which date the fiscal year begins. The highway department, functioning on a calendar year basis, is put in the same position as some of the nations and states here listed. Professor Cline has commented as follows on the situation created in his State:

The highway fund appropriation act makes appropriations for the current calendar year and is not likely to be passed for three or four months after the beginning of the year. During the interval before the adoption of the highway fund appropriation act, the highway and motor vehicle departments are permitted by the law to expend from the state highway fund the amounts necessary for the maintenance of the state highway system and the administration of the two departments. But no more may be spent for these purposes than was expended in the same period in the preceding year. Furthermore, the state highway commission may not enter into any new contracts for construction until the highway appropriation act has been passed.³

This type of arrangement does not necessarily indicate that New Jersey's independent highway budget is justified.

Idaho

In Idaho, immediately upon convening, the legislature passes an appropriation for the operating expenses of all departments for a sixty-day period. For a period of a week or less the State apparently operates without the benefit of any specific authorization by which the expenditures are made. Some benefits from continuing appropriations may be seen here. When the appropriations are voted, they are made retroactive to January 1 and eliminate the provisional appropriations that the legislature passes. Since the budget has probably not been submitted, the temporary appropriations can hardly be made on the basis of the new program. The budget officer of the state, therefore, usually computes the needs of each department for the sixty-day period, basing his calculations upon the expenditures made during the same period of previous biennia.⁴

Massachusetts

Massachusetts has had an acceptable procedure since it adopted its present procedure in 1919. Gulick's study of the history of

³ Cline, *op. cit.*, p. 27.

⁴ Letter from L. F. Parsons, Secretary of State Chamber of Commerce, under date of February 6, 1936.

budget practices in Massachusetts describes the beginning of the current methods:

Inasmuch as the fiscal year in Massachusetts begins on December 1st, and the general appropriation act cannot pass much before the following April, some system of "votes on account" is clearly necessary. Up until 1919, this situation had been taken care of through the passage of annual resolves, when the statutory extension of authorization to spend on account through December and January had expired without the passage of the annual appropriations. On the initiative of Mr. Young, there was passed in 1919 an Act providing:

Boards, commission, officers and officials having charge of expenditures in behalf of the commonwealth may continue expenditures in each year at the rate of the appropriation authorized for the preceding year until the general court makes an appropriation therefore or provides otherwise." (General Acts 1919, Ch. 20.)⁵

The writer has been fortunate in having an authority on Massachusetts's fiscal problems discuss his State's provisions for financing activities between the opening of the fiscal period and the date at which expenditures are voted. Commissioner Long notes in reference to the practices that:

They have worked ideally and except under unusual circumstances—such as this year, for example, when there was an election year and it was necessary for the Secretary of State's office to spend more money than normally would be true—are very satisfactory. In this particular instance it was necessary for the Legislature to pass an extra provision so as to save money and permit the Secretary of State to spend more or contract for more than was spent in the same period of a previous year, in order to get out the election blanks. Aside from such emergencies as that—so far as I know the only one arising since 1919, namely in this year—the plan as outlined is perfect. In fact we have the same plan which is made to operate in 355 cities and towns. It does two things: It insures that activities of government will move forward and it provides that an amount, not in excess of that which the voters or their representatives have determined in previous years was to be the cost of government, will be expended.⁶

Missouri

In Missouri permanent legislation permits the departments to spend at the same rate called for in the previous biennium's

⁵ Luther Gulick, *Evolution of the Budget in Massachusetts* (New York, 1920), p. 197.

⁶ Letter to the writer from Henry F. Long, Commissioner of Corporations & Taxation of Massachusetts, under date of Sept. 23, 1936.

budget. When the appropriation bill is passed, it is retroactive from January 1. Between the opening of the fiscal period and the time at which the expenditures are finally voted, the Missouri legislature makes no effort to vote a temporary program.

Ohio

In Ohio as soon as the legislature meets it passes a temporary appropriation bill to cover the current expenses until the general appropriation bill is passed. The temporary appropriation bill, which is prepared by the Division of the Budget, is usually passed about the middle of January. For the period between January first and the date of the passage of this bill, the State Auditor probably holds up bills. When the general appropriations are passed they cover a two-year period, beginning January 1, and they automatically repeal the partial appropriation bill.

Oregon

Oregon does not provide a specific method of bridging the gap between voting and the lapsing of the old items. Apparently the procedure is similar to that which has been noted for Ohio. In case expenditures that have been made pending the passage of the appropriation bill are not covered in the general appropriation bill, the items are validated, if at all, in the deficiency bills passed at a subsequent date. Continuing items make it unnecessary for all State activities to wait for legislative sanction.

Mississippi

Mississippi does not seem to have enjoyed a very efficient method prior to its recent steps to remove the necessity for provisional financing. The State Auditor holds up all bills, which are not paid until the appropriation bill is finally passed. Writing in 1932 the Brookings experts noted that "action on appropriations is delayed until well into the current appropriation year, to the temporary embarrassment of both the treasury and the spending agencies".¹ Dissatisfaction with the delayed voting, because of the absence of any provisional financing method, caused the State to place the opening of the new period after the voting of appropriations.

Summary

The various methods should have operated in favor of speedy legislation. It is doubtful whether timely voting was accomplished, and the holding up of payments must have led to difficulties. Some of the expenditures that are made from assigned revenue or as continuing appropriations probably are responsible for the fact that a more efficient program has not been found

¹ Brookings Institution, *Mississippi Survey*, *op. cit.*, p. 361.

feasible. When a state has no opportunity to pass provisional measures prior to the opening of the period, it should place on its statute books some measure that will allow its financial program to continue at a reasonable pace. As soon as the legislature meets it may link the provisional financing to the new proposals or to its own ideas, if it wishes to do so. A continuation of the old items, if such can be countenanced under some constitutions, would serve to induce the states to pass the new bill promptly if they disapproved of the old items. It is questionable whether the idea of executive budget leadership is strong enough in this country to permit the provisional financing to be based on the new program, if such were known. In general the American states cannot enjoy the benefits of the British practices unless they arrange their fiscal periods to begin some time after the legislature has convened.

Provisional Budget Voting in National Governments

While only the jurisdictions that have been previously listed must each year provide for provisional financing, a large number of units, usually national governments, delay their voting and take recourse to these devices with considerable frequency. A variety of procedures to meet this situation may be noted. Some of the nations automatically re-apply the appropriations for the previous year until the new estimates have been passed. Others follow France and vote provisional estimates on a monthly basis. Canada, for example, follows the British practice, if necessary. Some of these methods and the experience with their use are discussed below.

France

France has the doubtful distinction of being the best known country with respect to its use and abuse of the method of temporary financing known as "provisional twelfths". It has already been noted that they are used with such frequency that France could well adopt a permanent provisional financing method such as is found in several of the British-type systems.

For the brief period during which France's budget year began on April 1 the use of the provisional voting was mandatory. This is not the case now. Under present conditions, if it becomes evident that the deliberations on the budget will not be completed before the opening of the fiscal year, the Minister of Finance submits a project for a *loi de douzieme*. Parliament, according to the provisions of the law, votes to confirm existing revenue laws, which would normally expire at the beginning of the fiscal year. It has already been noted that the taxes in France require annual reimposition. Credits based on the appropriations of the past budget are open for the number of months that the project specifies. Instead of a strict arithmetical basis, weighting for seasonal and other factors is made.

No changes in policy that may be incorporated in the new budget are included in the provisional twelfths. Appropriations, when finally voted, are retroactively effective and theoretically cover the entire period.

The fact that the provisional twelfths are easily passed (the entire war period in France was financed through a continuous extension of the practice) has created a situation in which the legislature feels no necessity to observe the dates of the fiscal year. This has led to a long series of debates and suggestions for a revision of the system. The French have already tried revising dates, and limiting parliamentary discussions. Allix has suggested a two-year budget period, obviously feeling relieved at the thought that the voting of the temporary financing would take place only once in two years.⁸

During the depression, when there was no unified leadership favoring either an expansion program of deficits or a sincere economy and deflationary policy, the legislative debates extended for months beyond the opening of the fiscal year. In 1933 the budget was not voted until the month of June. The next year the newspapers reported that the time-honored custom of pushing the clock back was resorted to on the last day of February in order to pass the budget before the expiration of the provisional twelfths.⁹ An innovation reported during 1935 consisted of an elimination of voting by chapters in order to spare time-consuming discussion on details. The practice of submitting estimates in units of Ministries was introduced by Finance Minister Regnier.¹⁰ Their success in obviating any need for recourse to provisional twelfths may have been responsible for the fact that the 1936 budget was voted before the first batch of provisional monthly appropriations expired. Such a situation is unusual and desirable for France.

It seems as if the French device for provisional financing had encouraged delayed voting. The country might recognize this and give to those preparing the budget some benefit of the delay.

Belgium is another country which more or less regularly has recourse to provisional budget practices. A system similar to that found in France is used to bridge any period between the opening of the fiscal year and completion of Parliamentary debates.

Greece

Provisional twelfths are found also in Greece. In this country, as in most others resorting to the practice, a strict arithmetical basis of pro-rating annual estimates over monthly periods is used. This undoubtedly must create hardships in some of the departments. The Greek system, however, has an advantage over the others, inasmuch as it applies percentages of the proposed rather than

⁸ Allix, *op. cit.*, p. 225.

⁹ N. Y. Times, March 1, 1934.

¹⁰ N. Y. Times, Dec. 10, 1935.

of the past budget. This is an element enhancing the power and privileges of the executive with respect to the budget, a factor that is rather meaningless in terms of most recent political developments in that country.

Italy

In Italy there are no legal provisions regarding the provisional twelfths although they are used with considerable frequency.¹¹ The government submits a provisional budget, using an arithmetical basis for prorating expenditures over the required number of months. Unlike the methods in other countries the regular budget does not re-include these amounts and contains only the appropriations that are effective in the period that has not been covered. The need for Italy's recourse to these devices is surprising. Legislative delays must indicate only a delay in the formulation of the executive program.

Turkey

Turkey has on several occasions also used a system of provisional twelfths calculated on an arithmetical basis. As in Italy there are no statutory regulations. In case of a need for them a special law is passed abolishing the general statutory requirements covering budgetary matters for that period.

Other Nations

Other nations that have specific provisions or established practices include Denmark, Germany, Hungary, and Sweden. According to the constitutional provisions that regulate the Danish procedure, the government submits a temporary budget to the House of Commons. Only certain fiscal items may be included in this temporary budget. The writer has been informed that temporary budgets are rarely used, and in recent history only two have been known. The longest period for which they have been in force is three months. This differs widely from the recent practices of some of the other continental countries.

In Germany the provisional budget was provided for in the *Nothaushaltsgesetz*. The procedures were similar to those in Denmark and the frequency with which the temporary budgets were used was not great.

Should the need arise in Hungary the government requests from Parliament a special authorization bill based on the budget of the preceding year. A specified time limit is mentioned in each special authorization bill, and it is subsequently invalidated if the appropriation act is passed prior to the time specified in the period.

In Sweden, in the event of a delay, the Riksdag may provide for a temporary continuation of the old budget. This is similar

¹¹ Alberto de Stefani, *Manuale di Finanza* (Bologna, 1931), p. 276.

to the special resolutions passed when necessary by the Central Executive Committee in Russia. However, in Sweden the Constitution states that in case a budget is not completed in time to become effective for the new fiscal year the older budget shall continue in effect until a new one is prepared and passed.

While the magnitude of the problem in the United States does not warrant a detailed survey of practices in all the national units, a study made by the League of Nations enables us to note the outstanding characteristics of the procedures in several other nations not covered above.

A large group of countries allows the executive automatically to extend the budget of the previous period or enact enabling legislation having the same effect. In Albania, Cuba, Dutch Indies, Estonia, Finland, Japan, Latvia, and Norway the last voted budget is in force, either on a monthly or quarterly basis, until the new budget is voted. Buck reports similar provisions in force in Chile and Poland.¹² A representative procedure is that found in Latvia. The League experts report:

Should the State budget not be adopted before the beginning of the budgetary year, the Finance Minister, in pursuance of a decision by the Council of Ministers, grants monthly credits. Such monthly credits may not, in principle, exceed one-twelfth of the budget expenditure for the past year. Should larger credits, however, be necessary, these may be granted by the Finance Minister, with the permission of the Council of Ministers and the approval of the State Auditors. These measures hold good until the budget is passed by Parliament.

Parliamentary approval need not be asked for such a decision by the Council of Ministers in the case of the ordinary budget but is necessary in the case of extraordinary expenditure.¹³

In Norway, if the need arises, the Government without special authority from Parliament may make such payments as are necessary to provide for normal operation of the public services.¹⁴ A few jurisdictions follow the practices that are most prevalent in the group of important European nations analyzed above. They require parliamentary approval for an extension of the previous year's budget for a limited period into the new fiscal year. In the Argentine, in Spain (under the Republic) and in Yugoslavia this practice is found. In the last-mentioned country, if Parliament is not sitting, the budget of the past year is promulgated by Royal Decree with the approval of the Council of State. Such a re-enactment is valid only for four months, while Parliament is not restricted (within a year) in the number of

¹² Buck II, *op. cit.*, p. 88.

¹³ L. of N., *Tech. Comm.*, *op. cit.*, Vol. III, p. 160.

¹⁴ *Ibid.*, p. 91.

months for which it may carry on the previous year's program.¹⁵

The practice of basing the temporary financing on the past budget (as voted) does not serve the best economic interests. It is representative of one of the basic defects of many budget systems; it involves a link to the past with a disregard of currently known or probable future needs. When deficits are prevalent a retention of a program that was inadequately financed means a continuation of an unbalanced condition. Such was the case in France in 1933, when there undoubtedly was an element of politics in reverting for a long period to a budget recognized as out of line with current realities.¹⁶

In countries in which the executive budget system is firmly established, the method of tying the provisional financing to the new budget appears to be desirable. It may spur activity on the part of an opposition legislature, while on the other hand it might encourage procrastination on the part of a legislature in sympathy with the chief executive. Of the many nations surveyed by the League of Nations experts, only a few have formally shown a willingness to place confidence in the executive program. Actually legal provisions seem to lag behind the trend towards dictatorial powers, which should make such a slight extension of authority to the executive a more commonplace event. Austria, Bulgaria, Lithuania, Mexico, and Peru follow the procedure of nations that have votes on account based on the proposed budget. It is not surprising that, with few exceptions, no nation would allow the government automatically to put the new budget into effect. Lithuania, which now functions without a legislature, can hardly be treated as typical but its practices are of interest.¹⁷

As long as the legislature has a chance to voice its disapproval it seems unnecessary for the old budget to be extended.¹⁸ A

¹⁵ *Ibid.*, Vol. II, p. 130.

¹⁶ *N. Y. Times*, January 29, 1933.

¹⁷ If the budget has not been enacted by the beginning of the financial year, the Minister of Finance, with the approval of the Council of Ministers, is empowered to authorize ordinary expenditure at the rate of a twelfth part, each month, of the credits appearing in the proposed budget, provided that such twelfth part does not exceed one-twelfth of the ordinary expenditure for the year just ended. At the present time, where there is no Seimas, the provisional "douziemes" come into force, after being voted by the Council of Ministers. This procedure has been followed every year since 1928. The maximum number of provisional "douziemes" was used in 1933; there were seven, the budget having been enacted on August 8th. In the case, however, of exceptional necessity, the Minister of Finance, with the approval of the Council of Ministers and the consent of the Controller of State, may increase or reduce the total credits thus granted. "Extraordinary" expenditure may not be incurred until the budget has been actually voted. *L. of N., Tech. Comm., op. cit.*, Vol. III, p. 167.

¹⁸ In Peru:

Under the law of the Constitution, if the budget is not adopted by Congress before the beginning of the new financial year, Congress must decide that, until the budget has been definitely voted, either the budget of the previous year (by one-twelfth at a time) or the new draft budget presented by the Government will be put into force provisionally. *L. of N., Tech. Comm., op. cit.*, Vol. III, p. 189.

policy such as is provided for in Bulgaria seems wise. When it is not feasible for the legislature provisionally to vote monthly outlays on the basis of the proposed budget, the items already voted remain in force until they are superseded by the newly voted budget.¹⁰

United States Federal Government

The federal government of the United States has a very loose and ill-defined method of voting provisional appropriations, which are rarely used and in no way encouraged or necessitated by the time relationships of the budget system. On several occasions in the past Congress has passed resolutions allowing for the continuance of services on the previous year's basis. However, it has not granted funds for these purposes, obviously causing a delay in some payments. There has been no recourse to provisional financing for the entire budget program during the past decade or longer. Both in theory and in practice the failure of the legislature to vote the budget program, a contingency much discussed and not unknown abroad, has no great relevancy in this country.

Provisional Budget Voting in State Governments

It has already been noted that the problem of bridging intervening periods does not exist in most of the American states. They err on the other side in that they provide for early and curtailed sessions, in some cases the timing being specified by constitutional provisions. The need for bridging intervening periods is exceptional and one that probably indicates a legislative deadlock rather than any normal extension or delay of deliberations. Only a few jurisdictions have provided for the contingency of a "budget refusal". In a few of the states where the fiscal year for the highway department varies from that of the regular period on which the entire budget procedure is based, some difficulties might be encountered. However, this has not led to many discussions or legislative efforts to solve this pressing problem. New Jersey is an example of a state where are found some extra-budgetary functions that use fiscal years not coinciding with the general budget period. According to the regulations covering the State highway fund, expenditures limited to the proportion spent in previous years may be made by the department until the enactment by the legislature of a bill covering its activities.

North and South Carolina

In very few states in which the procedure is not essential are there legal provisions for meeting the contingency of legislative delays. The Carolinas both have made some provisions. In North Carolina the Governor may submit an emergency appropriation bill which may be enacted and continued in force

¹⁰ *Ibid.*, p. 79.

until the budget appropriation bill supersedes it. In South Carolina there is a provision allowing expenditures by the various departments for three months at a rate equal to that of the preceding year.

Kentucky

Kentucky has specified that "in the event that the General Assembly fails to provide for expenditure required by law or the Governor vetoes appropriations, the appropriations of the preceding year, for ordinary recurring expenses, continue in force."²⁰ Extraordinary expenses and capital outlays are not affected by this provision. If an existing appropriation represents several types of outlays "the Department of Finance determines what proportion applies to ordinary recurring expenses, and the proportion so determined becomes the appropriation for the next fiscal year."²¹

Rhode Island

In Rhode Island the statutes provide that if a budget bill is not passed and signed before the beginning of a new fiscal period, state agencies may continue to make expenditures at the rate of one-half of the appropriation for the previous year.²² This apparently penalizes the departments for delays. Buck reports with reference to Rhode Island a somewhat different procedure, possibly that in force prior to the 1929 revision. He states that provisions:

permit executive determination of the budget in the event the legislature fails to act at a specified date. Should the legislature, however, act subsequently to that date its appropriation supersedes the authorization of the executive for the remainder of the fiscal period.²³

Chamberlain reports that in 1924 and 1934 the appropriations were not passed in time and that the expenditures were continued at the old rate.²⁴ If the method that Buck describes were in force, it would be in keeping with the philosophy and principle of executive budgeting.

In general, the problem of provisional budget voting is not a serious one in the states, but if the occasional legislative deadlocks should become more frequent, perhaps because of the fact that steps are taken to increase the proximity of the final preparation and adoption dates to the fiscal period, some change would be necessary. The discussion of the practices of the national governments offers a variety of practices as well as some indication of the ones that the states could profitably copy. Certainly Georgia,

²⁰ *State Budgetary System of Kentucky*, unpublished survey prepared for the writer by Willard Hogan, University of Kentucky, Feb., 1935, p. 8.

²¹ *Handbook of Financial Administration*, *op. cit.*, p. 35.

²² R. I. Pub. Laws (1929) c. 1349, art. 9, § 7.

²³ Buck I, *op. cit.*, p. 88.

²⁴ Chamberlain, *op. cit.*, p. 228.

in which the legislature of late has been known to fail to enact an appropriation bill, might have benefited from some provision which would have enabled the State departments to function on some quasi-normal basis. The absence of a voted appropriation bill in Georgia incidentally offered an opportunity for the recognition of the evils of separate control over state funds. When sufficient funds for some functions are not available, steps are frequently taken to raid the funds dedicated to some other activity, and a violent disruption of orderly state fiscal administration may result.

PART V
BUDGET PROGRAM EXECUTION

[523]

CHAPTER XLII

PROBLEMS OF BUDGET PROGRAM EXECUTION

The Scope of Execution Stage Problems

In their formulation of principles and in their general studies European students of budgetary problems have indicated a keen interest in the execution phase of budgetary practices. In doing this they have gone beyond the scope of the usual concern over administrative, accounting and legal aspects of the performance of legislatively-sanctioned fiscal activities. Until recently the common American interpretation of budgetary problems in the execution stage has not been so broad.

Neumark, for example, has been concerned largely with economic and financial aspects, his interests growing out of his particular methodology, consisting of normative principles and of the economic background of the German system with which he is primarily concerned. Jèze has been motivated by his political interpretation to stress the distribution and delegation of power with regard to execution period practices. His analysis embraces such problems as the unit of voting, modification privileges and duties, transfer powers, and emergency expenditures. These problems are of primary economic and fiscal significance, and fall within the scope of this study. However, the Jèze analysis does not go beyond them.

Many phases that are traditionally associated with the more popular interpretation of execution procedures in budget systems are here omitted. Buck's recent study may serve to illustrate this point.¹ Two of his ten chapters deal with elements covered in this section. Chapter VIII, entitled "Execution of the Budget," covers "The Machinery and Methods of Financial Administration," "The Maintenance of Budgetary Equilibrium," and "The Technical Instruments for Exercising Budgetary Control." Of these only the middle sub-grouping covers material analyzed in this study. The next chapter dealing with "Accountability for the Budget as Executed" considers auditing systems and methods. This phase of the subject is here completely disregarded. A recent new edition of Professor Shirras' "Science of Public Finance" offers another opportunity to view a different interpretation of the execution phases.² In Book V, dealing with "Financial Administration," three chapters correspond to the three procedural stages in budgetary matters: "The Preparation of the Budget," (Chap. XXXIII) "The Legislation or Voting of the Budget" (Chapter XXXIX), and "The Execution of the Budget" (Chap. XL). The last men-

¹ Buck II, *op. cit.*, *passim*.

² Shirras, *op. cit.*, *passim*.

tioned chapter deals exclusively with aspects not covered in this study, namely revenue collection, the custody of public moneys, accounts, control over issue (payments), and audit of accounts.

There has been nothing to decrease the importance of collection, payment, and accounting and auditing practices. The passing of the predominance of the property tax in state finances, for instance, has not changed the need for these mechanisms. On the contrary, modern problems and modern budgetary systems require more than ever a sound administrative and accounting foundation. Upon this successful development are predicated the various methods and devices that are here analyzed. The efficiency, the honesty, and the publicity that the traditionally analyzed elements provide for the administration of the public finances will be considered as institutional elements. With a great disregard of possible fact, it will be tacitly assumed, unless otherwise noted, that all future reforms will be accompanied by improved financial administration.

There is a ready explanation for the latent interest in the economic and fiscal implications of expenditure control practices with which this part is primarily concerned. The interpretations of the lack of interest, especially in the United States, are influenced by revenue adequacy and stability in expenditure programs. Accounting and administrative aspects of the expenditure problem are necessarily stressed. Strict observance of the procedures outlined by legislatures is indicated as a desirable policy in budgeting and the mechanisms and devices to insure such strict observance are studied.

The recent economic crisis has necessitated a change in our interest in the execution phase of budgetary problems. It is intended that this study shall reflect this change. Jurisdictions everywhere have been inclined to tolerate greater activity and initiative on the part of executive authority. In some cases specific patterns for their modification of voted programs have been outlined. In other governments measures voted are designed to bring about retrenchment and to restrict the scope of new and excessive spending. A considerable variety of practices is found in the several countries as well as in the political subdivisions. In the American states a new approach to the problem was necessitated by a sudden realization of the fact that revenue adequacy is not assured merely by the levying of taxes. It was realized that many conditions were necessary in order to allow a state to accomplish the fiscal program as planned by the executive or voted by the legislature. It has already been indicated that the absence of borrowing powers and potentialities forced many interesting mandatory expenditure modification programs and has opened a new phase of budgeting that was not previously conceived.³ Considerations of a

³ In his pre-depression study *Buck* (*Buck I, op. cit.*) had no occasion to report a single economy motivated expenditure modification system, either mandatory or permissive, such as are now found in over half the states.

fiscal and financial nature have been more important in the formulation of these practices than in almost any other stage of budgeting.

Revenues are only indirectly related to the execution problem as it is here conceived. The problem is primarily one of viewing reactions to collections on the basis of previous legislation. In only a few instances has there been any evidence of authority on the part of executives to modify revenue programs. Outside of the scope of the usual regulations in connection with tax administration, few if any changes have been tolerated. The problem has been primarily one of forecasting and measuring revenue yields and of using them as a base for expenditure control.

Operating under emergency decrees leaders in several of the non-democratic nations have been able to use their powers to modify revenue items. Such practices offer little help, if any, for the solution of American problems. The power to initiate and levy taxation is a closely guarded prerogative of the legislature. In general, political and other factors have proved to be sufficiently strong to stress expenditure economy rather than enhanced revenues. Only one or two instances of automatic or delegated tax revision powers have been noted. Particularly the ability of the American states to shift some of their burdens to the federal government, or their total disregard of the necessity for maintaining essential functions have acted to prevent them from seeking a way out by means of drastic tax programs. The economists dealing with the business cycle problem have, especially for the recovery phases, recommended modifications in tax practices. These in some instances have been in terms of automatic and self-adjusting tax rates. The principles are similar to the practices involved in the compensated dollar theory of Professor Fisher. There has been, however, no action along these lines to date, and in all cases where revenue changes have been introduced in the American states, they have been based upon specific legislative authority for each action. Recommendations for self-adjusting sales, or property tax rates responding to changing price levels, is an example of the type of tax policy that may at some future time require a new orientation in an analysis of the execution procedures of budgetary systems.

Accounting Systems and Budgetary Problems

Before turning to the array of subjects discussed in this section, brief mention should be made of important administrative accounting practices. These methods deal with the closing of the budget accounts.

Writers on budgetary problems have paid much attention to these phases of the accounting and allied practices employed in the various jurisdictions. There are two distinct methods, best represented among the national governments by France

and Great Britain, respectively. One method, known simply as the cash basis, is followed in the latter country. The main feature of this practice is that all items are considered solely in relation to the period in which the transactions culminate and thus not necessarily in relation to the period in which they were authorized or initiated. The federal government of the United States together with the members of the British Empire group are the foremost exponents of such accounting systems. On the other hand, the French and the jurisdictions under their influence have long followed the accrual or *compte de gestion* basis—defined as a cash account operative over a definite period of time. The accounts for a particular budget period, the *exercice*, are kept open for some time after the period has actually terminated. Dalton has aptly explained the essential differences that affect budgetary studies as follows:

If the principle of cash accounting is in use, closed accounts approximate to a statement of the cash received and expended by the Treasury on the budget account during the twelve months of a given financial year. Such results are not directly comparable with those provided by the French system. Suppose, for example, that it is desired to compare the revenue of country A, which uses the method of cash accounting, with that of country B, which regulates its accounts by *exercice*. The closed accounts of A will show for any given year the revenue collected in that year irrespective of the year to which it belongs, while that of B will show, for any given year, a supplementary period of several months in addition to the nominal twelve months of the financial year being allowed for adjustment.⁴

From the point of view of recognizing surpluses and deficits the two accounting methods offer contrasts. A cash account method produces statements that are simply summaries of cash transactions taking place within a given period. It is concerned only with that portion of the period's income and expenditure that is actually received or actually paid. It is clear, therefore, that it may contain the receipts and payments applicable not only to the current period but also to the previous year, and even to preceding years. Moreover, its balance will not represent the true surplus or deficit for the period but merely the cash on hand at the close. Changes in all assets and liabilities are ignored until such time as they become cash transactions. Buck has said of the accounts kept on the cash basis that "they provide data only with regard to settlement and liquidation. They furnish no information concerning revenues and receipts that are due the government or expenditure obli-

⁴ Dalton, *op. cit.*, p. 310.

gations that have been incurred by the government".⁵ If a deficit or surplus is linked to a cash account, its limited scope must be recognized.

The accrual accounts are more complex and the announcement of results is necessarily less timely. The accounts cannot be closed until all collections have been made and all obligations settled. The fiscal year assumes a personality and is extended through time in order that all results originating in that year may be definitely measured. True economic costs of particular functions, rather than the cost outlays in a limited period for a particular function, are ascertainable. The accounts are obviously more exhaustive, since accrued income and outstanding liabilities are not disregarded. Experience in France and elsewhere has shown that these advantages do not compensate for the delays and uncertainties, as well as opportunities for abuses, that the accrual methods permit.

Closely linked to the accounting basis is the problem of disposition of outstanding balances of appropriations. The procedures that are here followed determine whether the payments out of appropriations must be made only in the course of the fiscal period for which the appropriation is voted.

A number of jurisdictions, both national and state, allow an additional period during which payments linked to the financial period may be made.⁶ The United States federal government's practices have been criticized because unexpended balances of annual appropriations remain available to the departments for two years after the close of the fiscal year to which they relate.⁷ The usual period allowed in various nations is from one to three months.

There is a marked tendency for national governments to close their accounts periodically on a cash basis and thus avoid a lengthy period during which unexpended balances are outstanding and available. France's system encouraged so many abuses and inefficient practices that a gradual reform leading to the adoption of a modified cash basis has been instituted. There can be no doubt that national experience as well as theoretical contributions to the subject favor the strict cash basis and a sharp delimitation of the period during which unexpended balances are available.

In the American states there is an almost universal tendency for some form of a cash accounting basis to be employed. New York's methods are representative of state practices. Deficits and surpluses are determined without delay at the close of each fiscal period. In New York, as elsewhere, occasional suggestions for modifying the methods have been made. These have been encouraged by the desire to take account of realizable credits

⁵ Buck I, *op. cit.*, p. 522.

⁶ Data on the treatment of unexpended balances are indicated in the charts made available with this report.

⁷ Willoughby, *op. cit.*, p. 254.

upon closing the accounts for a particular period. In the course of a government's fiscal operations there are frequently occasions when the accomplishments of a particular period would appear in a more favorable light because of profitable but incomplete transactions. In submitting his budget message for the fiscal year 1937-1938, Governor Lehman of New York suggested the consideration of

some suitable modification of the accrual method of accounting which will reduce to much smaller limits, the opportunity arbitrarily to throw various items of receipts and expenditures into one fiscal year or another which will result in a more accurate picture of the State's true financial strength at the end of each fiscal period.⁸

There is little reason to believe that a reversion to a true accrual basis will be encouraged or tolerated.

In connection with unexpended balances wide extremes in practices are noted. In a number of states, including Colorado, Florida, Idaho, Indiana, Missouri, Nebraska, North Carolina, and Washington, unexpended balances lapse at the end of each biennium. In Alabama and Vermont the appropriations lapse at the close of each fiscal year of the budget period. A large number of the states make exceptions for encumbered balances. The opportunities to meet obligations incurred prior to the close of budget periods vary from ten days in Virginia to eighteen months in Louisiana and two years in California.

In Pennsylvania a complicated situation is found. Encumbered balances appear available for expenditures for varying lengths of time, according to the appropriations. A legislative enactment lapsing outstanding balances occurs approximately every four years. Prior to that period the unexpended balances of appropriations for current operating expenses are held open until the Budget Bureau is notified by the spending agency that all bills incurred during the biennium have been paid. Then the remaining balances lapse. New York, as does Massachusetts, allows one year after the close of the fiscal year before unexpended balances revert to the general fund. Almost all states make exceptions for appropriations for capital construction purposes.

In connection with ordinary maintenance operations of state governments, the intervals between voting and the opening of the fiscal year require a delayed lapsing of appropriations. The time of the legislative deliberations does not permit the lawmakers to reappropriate necessary funds for uncompleted transactions. It would be in the best interests of budgetary efficiency if the states conformed to strict standards of established practices. It is evident that many do not. Little explanation is required to show the different interpretations of deficits and surpluses and the different significance of voted appropria-

⁸ New York State, *Executive Budget, 1937-38*, p. xxx.

tions that may be associated with the varying accounting and lapsing provisions.

Fiscal Aspects of Execution Stage Procedures

For the purpose of discussing expenditure execution and control several phases of the problem will be emphasized. Consideration will be given to the problem of the unit of voting expenditures. This is a most important factor in the execution problem. Flexibility granted by the legislature through lump sum voting obviates certain types of specific privileges. The entire question of modification and transfers is difficult to interpret until it is related to the units of voting.

A second factor, and one that has grown in importance during the budget balancing difficulties of the depression, treats with the power or duty of the executive to modify, usually by reduction, the outlay program voted by the legislature and promulgated as the expenditure element of the fiscal plan. It will be noted that national governments offer only isolated and limited examples of the methods that are widespread and, in many instances, basic features of the American state systems.

Only brief mention of the allotment schemes will be made; this should not indicate any attempt at minimizing the economic and financial importance of this expenditure control device. It is essential as an aid to executive budget leadership and in the elimination of unnecessary deficiencies. It is an important element of sound budgeting in general. Its usefulness is unquestioned in connection with the various expenditure revision duties and powers that are noted below. Moreover, the seasonal needs of the spending agencies, as well as the particular problems created by biennial budget periods, also necessitate executive direction and supervision in the apportionment of voted funds. Quarterly allotments are universally favored. In some of the jurisdictions several interesting reserve and saving schemes operated in connection with the work programs and allotment practices will be noted.

Two additional phases of the execution and control problem are also analyzed. One deals with the problem of transfers. This concerns the power of the executive to shift and rearrange funds from one authorized expenditure to another in which the need for funds is more apparent or urgent. Transfers have been one of the basic phenomena in the growth of executive power over spending and are linked to the most commonly delegated revision privilege. Another phase deals with the methods by which the governments cope with the problem of new and unpredictable expenditure. Since legislatures especially in national units, are frequently in session for long periods, a large measure of the solutions of these problems found in legislative action. Measures that receive special legislative attention are ignored here. Methods are of interest in this discussion only when the

law-makers have not been able or have not been asked to cope immediately with all the emergency demands on the finances. The provisions under which the governments are able to spend above the specifically appropriated funds put at their disposal, and the allotment of funds for unredictable needs, form an important phase of the budgetary question. It is the point at which serious unbalancing opportunities may be presented. On the other hand, the failure to deal with emergency needs is a serious defect in any budgetary system.

Unauthorized spending encourages deficits through the accumulation of overdrafts. It also means that a safety margin against the incidence of overoptimistic revenue estimates is lacking. Even the jurisdictions that have made efforts to deal with the problem do not appear to have appreciated the magnitude of the funds made necessary by their inadequate formulation and by the widely fluctuating economic backgrounds. Providing for unforeseen outlays is essentially a matter of fiscal policy; budgetary mechanism can only encourage the proper attitudes.

In order to allow the execution provisions to be visualized in their inter-relations the discussion will follow according to jurisdictions. In each case the status of the four main execution phases that are emphasized in this study will be noted. Brief summaries will reveal practice in terms of methods rather than jurisdictions.

Following the usual procedure, the practices of the national units will first be surveyed. In studying the American states three main categories have been segregated. The manner in which the states provide for post-voting modifications has been used as the decisive criterion since action taken under the various powers and duties that are outlined overshadow all other features.

The first group comprises the states that found it necessary or advisable to force the executive to cut voted appropriations whenever revenue yields warranted such drastic action. Some of the methods are elements of permanent budgetary legislation, while others were adopted only for particular budget periods. The economic and social significance of these balancing methods can only be suggested. In addition, voting units, transfer privileges, and the extra-legislative methods of coping with new or additional outlay requirements are analyzed.

A second and larger group of the segregated states represents examples of jurisdictions that have delegated permissive powers regarding expenditure modification. Several types are noted; those in which the revisions, now features of basic budgetary law, are obviously linked to disappointing revenue yields; those in which more general grounds for modification privileges are apparent; those that have made only occasional use of permissive retrenchment powers during particular periods; and finally one state in which broad executive powers for economy are only an indication of extensive executive budget authority during the

execution stage. All of the other execution stage elements here analyzed are included.

The third and largest group of commonwealths includes those that have made no provision for either mandatory or permissive post-voting economy powers. This group calls upon executives to administer the voted expenditures without revision. Limited opportunities for transfers, allotments, overdrafts, and other devices do not alter the significance of the mandatory character of the appropriations. A group of less than half the states in the Union was able to weather the depression without having to grant to their financial administrators any special economy powers or privileges. In view of the results of the economy provisions noted in the first two groups, the states belonging to this category should not be considered backward in the matter of executive budget leadership.

CHAPTER XLIII

NATIONAL BUDGETARY PRACTICES DURING THE EXECUTION STAGE

When a government has been given complete authority in the adoption and administration of its favored program there is little necessity for it to procure in advance the power to modify the voted plan of action. It seeks only to provide solutions for unpredictable events. Having done this a government is adequately prepared for future developments in the course of the fiscal year. Great Britain offers an example of such a government. Few jurisdictions have found that their preparation and voting procedures, as well as the fiscal circumstances under which they operate, have necessitated so small a degree of post-voting discretion as is found in Great Britain. The execution stage practices are of note in view of the fact that Great Britain and the dominions are still strongholds of the democratic form of government. There has not been any political encouragement to executive expenditure control such as has accompanied the general subordination and delegation of legislative power in other jurisdictions. Any existing powers that exist have economic or traditional backgrounds.

Great Britain

The British vote their expenditures in considerable detail according to service categories.¹ Grouped in terms of civil, defence, and revenue categories, the items do not follow the lines of spending organizations. This functional approach is one that has possibilities with respect to introducing a balanced and uniform relationship between costs of a similar nature in the various governmental units. It serves further to limit the necessity for any executive modifications to the late summer and fall months—between the time of voting the budget bills and the introduction of supplementary and deficiency estimates.

Votes, i.e., appropriations, and the scheduled subdivisions must be adhered to as adopted by the spending agencies, unless prior sanction of the Treasury for minor revisions in the form of transfers has been obtained.

Transfers are restricted except in the case of the defence services, for which a large degree of flexibility and control by the spending department itself has been provided. For the other

¹ A Vote of Credit is made only during periods of exceptional circumstances. It implies a grant to the Treasury which is then responsible for distributing the money to the spending units in a way that is best capable of fulfilling specified functions. The World War financing took place in this manner. The Votes of Credit, which delegate the control of outlays within a specified sum to the government, are used when it is essential to keep the expenditure program a secret.

services prior Treasury sanction for transfers and Parliamentary confirmation of such action must be received at some later time, similar to the procedure in respect to excess votes. Only sums allocated to subheads may be transferred to another sub-heading.*

While the formulation and voting influence is felt in all phases of the execution stage, it is in regard to devices to meet the needs for new and added funds that the minimizing influence of sound preparation and adoption is best seen. The making of expenditures in excess of voted funds is permitted under certain circumstances. Treasury collaboration is required. The Civil Contingencies Fund, any surpluses, and a treasury chest (foreign exchange) are used to finance any minor needs. The Civil Contingencies Fund usually is allotted $1\frac{1}{4}$ million annually. Some overdrafts by agencies using dedicated funds are also permitted; they are called excess votes when subsequently ratified by Parliament. To prevent a dilution of control very strict accounting procedures are followed with respect to these excess votes, and they are not subject to abuse. For most of the needs that arise, the government and Parliament take recourse to the normal voting procedure.

In general, it may be observed that the British system tends to concern itself with enforceability rather than with economic adjustment. This is possible because the system itself has suc-

* O'Connell has given a clear description of the transfer practices.

The British Estimates may be divided into two classes: those for the Civil Services (including the Revenue Departments), and those for the Fighting Services. The estimates for the different Civil Services are taken by Votes for each Department. Virement (transfer) between these Votes is not allowed, but it is permitted between the Sub-heads of each particular Vote. The Estimates for the Fighting Services—Air, Army and Navy—proceed on different lines. A separate Estimate is taken for each Service, but each Estimate is immediately divided, not into Sub-heads, but into Votes. Thus the Army Estimate is divided into Sixteen Votes—one of which relates to Numbers, and the others to the Cost of Pay, Clothing, General Stores, Warlike Stores, War Office, Pensions, etc. Section 4 of the Annual Appropriation Act allows each of these Fighting Services, temporarily and subject to Treasury sanction, to apply virement between the Votes set out in its Estimate, provided always, of course, that the aggregate total of the Votes as voted by Parliament is not exceeded. Parliament has, however, been most careful to control the exercise of this power. First, it must be authorized by the Appropriation Act of the year in which the Estimates are passed. Secondly, it is expressly subject to the sanction of the Treasury, and that this sanction is no mere formality is shown by the fact that in 1888 the Treasury refused to sanction an excess on one of the Navy Votes, because the application was not made in sufficient time to permit of due consideration being given to it before the end of the financial year. Thirdly, in accordance with Monk's resolution of March 4th, 1879, the Treasury itself must place a statement before the House showing the cases in which it has permitted virement in the case of the military, air, and naval Departments. Finally, in accordance with a recommendation of the Public Accounts Committee in 1862, full legal effect must be given to the Virement so exercised in the Three Fighting Services by the Appropriation Act of the year in which the Estimates are passed. O'Connell, *op. cit.*, pp. 90-91.

ceeded in providing within its normal framework the best preparation for, and forecasting of, the events which elsewhere require elaborate revisions and additions in voted programs. The British, according to the comments of a student of budgetary matters, are unsympathetic to the philosophy of a too-flexible execution system. Young notes:

Public control of public expenditure depends for its efficiency in large measure on the financial scheme for the year being presented to the House and considered and approved once and for all and as a whole. To allow the scheme once approved to be treated as something still fluid and liable to extensive modification must infinitely weaken effective control and supplementary estimates are the most harmful way of doing so.³

The Empire Group

The systems related to the British are all basically of the same type although there are some differences with respect to retrenchment powers and other elements. In Australia the appropriation act does not repeat the great degree of detail that is found in the budgetary estimates submitted to the House. Furthermore, Parliament in its voting, groups the expenditures in terms of organization units. In this it differs from other British practice. In spending the funds the various departments follow the original detailed estimates of the budget. There exists, however, considerable power in the hands of the government to reduce the voted expenditure items. The funds voted by Parliament are not made available to the spending units unless their requisitions are approved by the Treasurer, the Auditor General and the Governor. It lies within the power of these officials to curtail the spending below appropriations. Australia witnessed recourse to these powers in its recent financial crisis. However, its recovery efforts were not in general deflationary. Qualitative expenditure control rather than a wholesale disregard of economy was recognized as the main objective of its new fiscal policy.

The power to make transfers, as in Great Britain, is not wide. Some discretion is found in relation to the use of surpluses from one vote to meet deficiencies in a vote within the same organizational unit. This authority is restricted by several administrative rulings and applies only to regular services. It is not legal for the Treasurer to sanction the use of a surplus for a new or temporary service nor is he able to use the surpluses that grow out of specific public works activities. For funds that the government requires for new and unforeseen needs, recourse is taken without Parliamentary approval to an Advance Account, maintained for this purpose, which the Treasurer has at his disposal. The details of all revisions are

³ Young, *op. cit.*, p. 76.

subsequently submitted to Parliament and formally ratified.⁴

In Canada the voting units, which vary from lump sums to individual objects of expenditures, are grouped according to services. Apparently there are neither provisions nor established customs with respect to the degree of detail in which appropriations are voted. Parliament has delegated sufficient power to the administration to allow for the decrease of items during the execution of the expenditure program. Transfers, as is usual in the systems following the British pattern, are restricted and may be made by the departments only if prior sanction of the Treasury has been received. The provisions for new items or for increases in those already voted are not designed to encourage uncontrolled or excessive spending on the part of the departments. However, opportunities to meet emergencies when Parliament is not in session are available. The Governor-General may issue decrees granting special credits. These must be subsequently authorized by Parliament. In general, Canada appears to have advanced only slightly beyond the restricted philosophy of control that characterizes the system in Great Britain.

In India the wide discretionary powers in the matter of executing "voted" programs are in keeping with the trends displayed in the adoption stage. There is a device known as a "re-appropriation" which permits the Government to shift items with slight interference. The limitations noted on the use of transferred funds for new services must be ineffective since reserve funds are frequently available and deficiencies are tolerated. In general, the power of the executive in fiscal matters is very great.

In Ireland the customary unit or "vote" has been arranged according to services, of which there are about seventy, covering all Free State expenditures. The votes are divided into subheads grouped according to functions but these are for purposes of information only since the vote is the only division that has a binding legal effect. The system allows for a considerable degree of flexibility within the subheadings. It represents the chief opportunity for modification that remains in the hands of the government since the Chamber has not delegated many of its rights. Legally expenditures are not mandatory and, therefore, the items may be decreased, but it is not usual for any expenditure of supply once voted to be denied to the department. Transfers between votes are not permitted, but as indicated above, those between subheads may be made. However, prior sanction of the Department of Finance must be

⁴ In every case, the message of the Governor authorizing the transfer must be sent to the Auditor General and by him transmitted to Parliament with his report. There is no specified time in which the Treasurer shall submit the Public Accounts to the Auditor General, nor is he limited as in N.S.W. to a specific time in which to make his report to Parliament. *Budgetary Practices of the Commonwealth Government of Australia*, unpublished survey prepared for the writer by F. A. Bland, University of Sydney, December, 1934, p. 7.

received.⁵ In order to meet any unexpected needs a reserve fund is available.⁶

It should be recalled that the British-type jurisdictions are able to function with restricted powers of this kind because of the fact that legislative sessions occupy a goodly portion of certain basic time periods during the fiscal year. The first several months of the fiscal year allow opportunities for the submission of supplementary estimates. The Free State Chamber is in session for some time before the close of the fiscal year and may provide for the financing of any items that arose in the short intervening period. There is an opportunity for the government to sanction deficiencies in anticipation of the approval of the Dail. Also by means of an excess vote the Dail may be called upon to legalize a deficit that has been incurred by some department whose expenditure has exceeded its grant. It is to be noted that such a procedure is irregular and a rare occurrence. It serves to indicate that the Irish Free State system does give to its government, through ample voting opportunities, both legal and extra-legal methods of adjusting a previously voted program to unanticipated conditions. It is evident that the excess vote device, if abuses can be eliminated, is a welcome method of

⁵ With the special authority of the Department of Finance, a Department is permitted to offset excesses by savings in the account which is known as Virement. This process applies both to additional expenditure on a service provided for in the Estimates, and also to new services which are covered by the Vote, but not provided for in the Estimates, and for which a Supplementary Estimate is not necessary. The decision as to whether the new service should be provided for by opening a new subhead, or by means of a Supplementary Estimate, is a matter for the Department of Finance, and it is guided in its decision by the nature of the proposed service, by the amount involved, and also by what it presumes or presupposes would be, the wishes of the Dail in the matter. O'Connell, *op. cit.*, p. 87.

⁶ O'Connell has described the character of this fund:

In the financial year 1923/24 there appeared in the Estimates for the first time a sum of £20,000, being an "Estimate of the Amount required in the year ending 31st March, 1924, for a Grant in Aid for a Contingency Fund," to be accounted for by the Ministry of Finance. A note to the Estimate ran as follows:

"The Grant-in-Aid for which provision is here made is intended to be placed at the disposal of Executive Council for the purpose of being available to defray urgent or unforeseen expenditure which is not covered by the ordinary votes and for which it may be impracticable to seek the immediate approval of the Dail. All expenditure out of the Fund will subsequently be brought to the notice of the Dail on Votes which will be taken to repay to the Fund amounts equal to the issues which will have been made. The Executive Council will only use this Fund for purposes for which it may reasonably be expected that such approval will be given in due course. This procedure obviates the necessity for taking a Vote for Additional and Unforeseen Services for which a sum of £100,000 was provided in 1922/23. It is proposed that an account of the Contingency Fund be prepared annually, and after examination by the Comptroller and Auditor General laid before Dail Eireann."

It was later decided that the annual account of the Contingency Fund should be annexed for each year to the Appropriation Account of the Vote for Repayment of Advances on the Contingency Fund. *Ibid.*, p. 129.

providing for the errors that cannot be avoided in estimating, and which should not interfere with the carrying out of a voted function. The Irish system avoids through vigorous control a large degree of the opportunities for irregularities.⁷

In New Zealand the voted units are classified in detail according to government services. The Treasury, which supervises the expenditure according to votes, receives only a small degree of power to modify items. This power permits decreases in certain instances and transfers between items within a vote. The Public Revenue Act permits unauthorized expenditure up to an aggregate sum of £250,000 for general service and a further £100,000 for railway services. Items that the departments charge as "unauthorized" must receive prior sanction of the Minister of Finance and be specially reported to Parliament. Outside of this authority there has been no delegation of legislative power and Parliament must sanction any steps that are taken.

The Union of South Africa follows the practice of delegating only limited powers. Even such powers as are granted are evidently not used as frequently as might be expected. The following report of the League of Nations experts on transfers is enlightening with regard to this matter.

Transfers between the credits of the several ministerial departments are prohibited. The Appropriation Act empowers the Minister of Finance to authorize a saving on any sub-head of a vote to be made available to meet excess expenditure on any other sub-head, or expenditure on a new sub-head, of the same vote. Sanction to utilize savings to meet expenditure on a new sub-head is very rarely given by the Treasury, which almost invariably insists that the sums required for such expenditure shall be charged to the contingency account covered by a special warrant of the Governor-General, and then included in an additional Appropriation Act sanctioned by Parliament.

Sanction to effect transfers between the sub-heads relating to personnel and those relating to material is very rarely given in practice.

Transfers between the items are always possible at the discretion of the head of the department concerned.⁸

⁷ Any case of Excess is reported by the Comptroller and Auditor General to the Committee of Public Accounts which deals with it before any other business. On the Auditor General's reporting the Excess, the Committee usually issues immediately an Interim Report calling attention to the excess expenditure, and stating that the sanction of the Oireachtas will be required for it. This was the procedure followed in the cases of excess reported in 1923/24, 1927/28 and in 1928/29. If, on investigation, the Committee is satisfied with the explanations offered, it reports to the Dail that there is no objection to the sum being provided by an Excess Vote. The Vote should be presented to the Dail at the earliest available opportunity, that is, either when the irregularity has been brought to light on audit, or within the year of the Auditor General's report to the Committee. *Ibid.*, p. 106.

⁸ *L. of N. Tech. Comm., op. cit.*, Vol. LII, p. 42.

The fact that Unauthorized Expenditure Acts are occasionally passed indicates that there is some opportunity for expenditures in excess of those previously authorized by Parliament.

There are many points of similarity in the various British-type systems of execution but only a few are specific enough to permit of generalizations. Only Australia and the Irish Free State have definitely accepted the lump sum voting unit. Canada has no uniform method while New Zealand and Great Britain have detailed voting units. All the dominions allow post-legislative decreases in some form or another; only the mother country does not provide for them. With respect to transfers, there is some unanimity in restricting these to shifts within scheduled sub-heads of voted units. There does not appear to be any strict limitation on the making of new or additional outlays that have not received prior approval. In addition to funds provided for contingencies the Finance Ministers of the dominions may expect Parliamentary ratification of overdrafts. In general these systems display no need for the many shifts and changes found in jurisdictions in which fiscal pressure is greater and where voted programs are endowed with limited survival values. A brief review of the execution problems in other national units follows.

France

In France the unit for voting appropriations is a Chapter subdivided into Paragraphs. The Chapters are grouped by services. There are approximately two thousand Chapters in each voted budget. This gives some indication of the degree of detail involved. The adoption of a recent plan, alluded to elsewhere, to shift from the unit basis to a Ministry basis would have accomplished an appreciable reduction in the number of individual elements in the voted program. However, traditionally the French system is linked to detailed voting and any recent changes may have no influence in modifying the procedures based upon the Chapters.⁹ It is apparent that the French attitude towards comprehensiveness and unity would hardly form the background for a functional approach in voting, a factor that again points to the desirability of a budgetary system that will prevent any flagrant abuses of the principles represented by these two cardinal axioms of budgetary theory.

The extent of authority that Parliament has granted to the government has varied frequently according to the relations current between Parliament and the Ministries in power. Political and economic factors have led to varying degrees of acquiescence in respect to requests and grants made to different Premiers.

⁹ Allix has stated that the French practice of detailed subdivisions of Chapters has been of great assistance in avoiding difficulties in the administrative phases of execution. Such methods as making payments out of hidden sources, using left-over credits, or incurring unwarranted obligations are avoided. Allix, *op. cit.*, p. 207. •

In general, it will be recalled that France is linked with the nations that have neither stable traditions nor constitutional mandates affecting budgetary matters. As a result, each year finds a crop of new budgetary reforms controlling economic aspects of execution practices. Economy and retrenchment powers have been frequent since Poincaré's successful use of the vast fiscal dictatorial powers granted to him. Finance Ministers and Premiers have since felt that the request for similar delegations of economy powers from Parliament should inspire confidence and initiate successful budget balancing policies. None of the many deficits since 1926 has been planned.

The most recent instances of the many requests for powers to slash voted expenditures were in 1935 and 1936. In the former year the powers were granted late in the fiscal period.¹⁰

Flandin and Laval had previously raised the well-worn allusion to Poincaré's valiant efforts on behalf of the budget and the franc. In the early part of 1936 legislation was again passed authorizing the government to decrease expenditures or to eliminate them entirely. In general, the economy powers have been rather meaningless provisions since large scale deficit financing due to heavy expenditures has been tolerated. Neither tradition nor necessity supported the good will expressed in the preparation or adoption stages. As will be shown below, the governments have resorted to the power given to them to raise expenditures by decree above the stated appropriations more frequently than they have availed themselves of retrenchment powers.

Based on the assumption that voluntary economies would be the first efforts to combat a fiscal crisis the French have at various times experimented with extensive transfer powers. Like the above-mentioned retrenchment measures, the *virement* powers have not succeeded as incentives to economy.¹¹

In the more basic legislation, transfers from one Chapter to another are forbidden but the internal arrangement of Paragraphs need not be adhered to. In spite of the fact that there are so many Chapters there remains considerable leeway for potential transfers within them.

Generally there does not appear to be in France any widespread toleration of increases or new items without legislative sanction. However, a number of minor devices and emergency decrees have enabled successive governments to make large expenditures in excess of originally voted appropriations. Most frequently there is a request for additional funds from Parliament. Among the devices that have been the subject of large abuses are the *credits évaluatifs*. These are permanent sanctions given to the government to provide for new functions (entirely new or limited to previous services) which must be carried out before the legislature meets again. To avoid gross irregularities the laws provide that

¹⁰ N. Y. Times, July 25, 1935.

¹¹ Allix, *op. cit.*, p. 246.

these extraordinary credits may be extended only when Parliament is not in session. They are prohibited during periods of adjournment and dissolution. This prevents any initiative on the part of the spending agencies themselves that might lead to excessive spending. The Cabinet and a few other high financial executives must give their approval. Furthermore, there is a requirement that any extra-legislative credit must provide its own financing media. Finally there is the requirement that all credits must be placed before Parliament before the third week of its next meeting. It would seem that only emergency needs that could be met without piling up deficits should be financed by *evaluatif* credits. (Supplementary credits for making additional outlays under already voted credits, referred to as *credits limitatifs* are subject to the same procedure.)

It is possible to observe in France that the concessions in the interest of administrative and economic needs have been subject to perverted uses. The difficulty of successfully counteracting the effect of vacillating leadership is no better illustrated than in connection with this delegation of legislative power. It may illustrate what the American states might anticipate if they resorted to similar measures to counteract their infrequent legislative sessions, and if they did not adequately anticipate revenue requirements. Allix's study¹² is helpful in summarizing the abuses to which the system is subject.

It may be noted first that the knowledge of modification powers may facilitate unscrupulous balancing in the preparation or voting stages. As was found to be the case in connection with deficiency appropriations in the American states, it is possible for Finance Ministers or the legislators to show admirable intentions by concealing their plans to nullify any present economy measures by subsequently letting loose a flood of *credits evaluatifs* and *credits limitatifs*. In the absence of efficient and sincere executive leadership the device is a failure except in providing a loophole for uncontrolled spending.

Secondly, the Legislature's wishes may be nullified by having discarded appropriation requests reappear as additional credits. Moreover, the executive departments, anticipating legislative objections, may resort to the obvious expedient of describing their pet projects as extraordinary and unpredictable needs. We note here again that the attitude of the executive is of great significance.

A third element, that French experience confirms as rather useless, is the requirement that the additional credits be restricted unless funds for their execution are available. Unless, as is done in some jurisdictions, actual assets are earmarked, new taxes levied, or tax rates are imposed, both the spirit and the letter of the requirement may be easily evaded. Optimistic estimating can always supply a potential surplus. Furthermore a financial

¹² *Ibid.*, p. 244-50.

system as complicated as that of France is often able to supply some unused resources.

Fourthly, the French Parliament has not been an adequate watchdog. It is usually too busy with its plans for future "economies" to be concerned with checking on the basic causes of past difficulties. Legislative authorization of an accomplished act has hardly proved to be an efficient way of avoiding administrative abuses.

What is necessary in France, in addition to improvement in the "human element," are devices that will focus attention upon "emergency" and "supplementary" items and thus facilitate corrective action. Sufficient publicity, which is also lacking in the case of most of the American deficiency appropriations, is generally absent. There is no centralization of authority like that found in Great Britain. The Minister of Finance might assume certain duties and rights which would insure specific action rather than direct his efforts towards receiving approval from his Ministerial colleagues. Another practice that might be profitably adopted from the British is the establishment of definite legislative procedures in respect to ratification of unauthorized expenditures. A fixed unified procedure would focus public as well as legislative attention on the outlays and thus might effectively check some of the abuses now practiced.

The study of French practices should bring out the fact that a budget system is a willing tool in the hands of those who control and administer it. If the American states relaxed what appear to be needlessly harsh restrictions, they might enter into reckless financing periods. State legislators, like their colleagues in every other democracy, do not hesitate to authorize additional outlays if no immediate necessity for increased taxation is involved. There is little validity in the assumption that authority to adopt economy measures would not be neglected and that extra-spending powers would not be abused.

Germany

In republican Germany there does not appear to have been any required or even customary unit of voting. Units varied with respect to the degree of detail supplied. Both lump sum and detailed appropriations were voted. The criteria for the grouping of estimates also varied, although it should be recalled that all estimates were within the scope of the individual budgets, grouped according to Ministries, and to the specific functions into which the budget was subdivided. Neumark¹⁸ indicates that the degree of functional classification was not quite as great as that found in some American states with line budgeting but was greater than in the usual Continental pattern.

It is obvious that the Minister of Finance had considerable power with respect to decreasing expenditures. This was in keeping with the numerous economy drives and programs that

¹⁸ Neumark, *op. cit.*, p. 307.

characterized the German fiscal economy between the inflation period and the collapse of the Republic. Devices linking outlays to price levels, revenues, and several other bases were voted.¹⁴ The German system operated on the assumption that the spending agencies, anticipating cuts, estimated their needs too highly. The measures adopted were designed not to disappoint the agencies. Transfers were not provided for in the budgetary legislation and hence were permitted only in case of specific mention at the time of the voting of the appropriation. Where they were allowed the law usually specified the items between which the transfers might be made. It should be noted, however, that the occasional recourse to lump sum appropriations, whenever any chance of savings was possible, obviated the need for transfers, and it was possible to make transfers within the administrative power of the spending unit. The care in the preparation and array of estimates precluded any belief in savings to be effected by shifts within the detailed items as voted.

The one thing that Germany definitely avoided was the delegation of loose powers to spend in excess of voted items. The entire German budget system was geared to prevent over-expenditure which was associated with debts and inflation. However, some concessions were necessary. The Minister of Finance was authorized to consent to increased spending by the departments. Any items in excess of 10,000 Marks, for which the approval of the Minister of Finance was required, had to be submitted at least quarterly to Parliament. The opportunities for abuses present in the French system were avoided. While political and economic factors obscure any isolation of budgetary influences, it is evident that little spending that was not subject to the Reichstag's supervision took place. When the crisis came in the last years of the Republic the normal functioning of the system was obscured. However, few of the difficulties, if any, have been traced to defects in the budgetary system.

Sweden

In Sweden, as in republican Germany and the United States, there does not appear to be any standard or specified unit of

¹⁴ Just before the Republic expired some drastic retrenchment decrees were passed. These, described by Dalton, anticipate what is to be found in the American states.

The 1931-2 Budget as passed by the Reichstag balanced at 10.7 milliard (Ordinary and Extraordinary). But it was obvious then that the progress of the depression would upset the equilibrium. In order not to delay the passing of the Budget, the Reichstag, through an important regulation of the Budget Law, empowered the Government to reduce expenditure in the Ordinary Budget to the extent made necessary by the fall in revenue and unavoidable increases in expenditure. This authority was further amplified in the Second Emergency Decree, 5th June, 1931. By virtue of these powers, the Government was able to set the Budget right as circumstances demanded. The process entailed a drastic scaling down. In the Third Emergency Decree in September, 1931, the Budget was estimated to balance at 9.3 milliard. The year actually closed with a deficit of 449 millions even after the tremendous efforts made by decree to achieve equilibrium. Dalton, *op. cit.*, p. 93.

voting, though in all items a great degree of detail is specified. Only in the case of the public works programs are lump sum appropriations noted.

The government, represented by the King, has been empowered to reduce or omit expenditures. For certain items voted as "tentative appropriations" the government has been granted wide discretionary powers beyond the scope of the normal permissive economy acts. Transfers between any voted categories are prohibited. Transfers within the voted units are also restricted.

Sweden is one of the few countries that have attempted to make adequate provision, through the medium of reserve funds, for unforeseen expenditure needs. Special appropriations are voted for such expenditures. In addition each main group of items carries a reserve appropriation. Furthermore, a fund required by the Constitution is available for other emergencies. Outside of the reserve funds legislative sanction is necessary for any outlays to be made in excess of the voted program. In general, the Swedish do not tend to avoid deficits as much as they do to keep a somewhat planned relationship. This is very successfully carried out by making ample provision for expenditures which experience has shown are likely to occur.

The Scandinavian countries have not found it necessary to provide for many revisions not originating in the legislature, unless these serve the purpose of preserving an anticipated expenditure-revenue relation.

Denmark

In Denmark there does not appear to be any fixed unit of voting. Classifications both by organization and function are made in great detail. The delegation of power by the Rigsdag to the Minister of Finance has permitted considerable modifications in the execution of the budget program. The government may, furthermore, make certain major changes if it receives the consent of the Finance Committee of the House of Commons. This is an interesting practice which might develop out of the legislative councils of the American states. Some solution of this type must undoubtedly be found. It should be noted that in Denmark the special powers granted to the Finance Committee and the government exist in spite of the fact that major changes are usually made through the medium of supplementary budgets. Transfers are permitted only in case specific permission is received at the time of voting. The writer has been informed that this is not a usual method of modification.¹⁵

¹⁵ *The Danish Budget*, unpublished survey prepared for the writer by K. H. Kofoed, Ministry of Finance, Copenhagen, August, 1934, p. 5.

An absence of transfer privileges characterizes the Scandinavian budget system. For Norway it has been indicated that:

transfers are possible between the chapters of the budget, but only in respect of items expressly indicated in the budget as being subject to transfer. The number of credits subject to transfer is very small.

The powers that the government and the Finance Committee of the House possess do not include the right to act by decree in emergencies requiring added funds.

Among the other governments those operating more or less under democratic systems or subject to the strict interpretation of basic legislation are first surveyed.

Belgium

It will be recalled that Belgium has a number of its basic budgetary provisions outlined in the Constitution. Its practices should be of particular relevancy to the American states because it has departed from the usual procedure found on the Continent. As in France the classification of voting units is based on services. The larger units are called Chapters. The functional classification by Paragraphs is designated among units known as Articles. Article 41 of the Constitution provides for detailed voting by Articles, and this therefore does not represent a mere administrative classification but rather has a legal basis. Nevertheless, certain services appear to be voted in independent appropriations. In general, the Constitution, which is rather strict with respect to the changes that may be made, appears to be evaded with some facility. Some modification powers are gained by granting, at the time of voting, specific powers to the Minister of Finance and the *Comité du Trésor* to make specific changes. The latter body, created in 1926, consists of three important Cabinet members.

L. of N. Tech. Comm., op. cit., Vol. II, p. 91.

The Baltic nations are equally restricted in transfer privileges, as the following excerpts from the League of Nations report indicate.

In Estonia:

transfers between chapters of the budget are illegal. Transfers between paragraphs may only be effected with the authorization of the Riigikogu as embodied in supplementary budgets. In the case of the National Defence budget, transfers between the articles of any given paragraph may only be effected by authority of the War Council presided over by the National Defence Minister or his Under-Secretary of State.

Decisions relating to transfers between articles are communicated to the Ministry for Economic Affairs and the State Comptroller's Department. If the Ministry for Economic Affairs does not make any objection within three days such transfers acquire final validity. *Ibid., Vol. III, p. 124.*

In Finland:

transfers between the various subdivisions which are not voted separately by the Chamber of Representatives are prohibited. *Ibid., p. 132.*

In Latvia:

transfers may be made inside the articles only with the permission of the State Audit Department. *Ibid., p. 161.*

The legal provisions noted for Lithuania are now incongruous with the known power of the executive in that country.

Transfers between chapters are not permitted. In exceptional cases, transfers between paragraphs of the same chapter may be made on the authority of the Minister of Finance and of the Controller of State. For transfers as between articles, it is sufficient for the administration responsible to notify the Minister of Finance and the Controller of State. *Ibid., p. 168.*

CHAPTER XLIV

NATIONAL BUDGETARY PRACTICES DURING THE EXECUTION STAGE (CONTINUED)

United States Federal Government

With respect to voting our federal practices differ somewhat from those found in Great Britain. There is no standard unit for the voting of the appropriations, though these have usually been set up in great detail and classified according to departments. More recently the recovery and relief measures have led to the voting of vast amounts in lump sums subject to executive allocation. This is not the usual procedure but may herald a new trend. There has been some criticism of the American practices because the budgetary appropriation bills do not conform to the best standards of classification and detail.¹ Salaries and public works expenditures have since 1921, as well as before, been the target of much criticism and objection. It is evident that the practices might benefit from revision, and that administrative as well as economic advantages would be derived. In this respect federal practices cannot be accepted as models for the states.

The question of post-adoption decreases is particularly relevant in a study of American state problems. In the federal system expenditures are in most cases non-mandatory and it is feasible for the expenditures to be decreased or withheld.²

While past Presidents have not made any widespread use of such powers as they may possess, it has been felt that a desirable type of control should be developed. The authors of the Committee Report of the Chamber of Commerce believe that the exercise of the Presidential powers would create, over a selected area of expenditures, a condition similar to that which is found in a number of states. It was suggested that the allotment methods set up by executive order in 1933 (to insure for the non-emergency agencies a proper apportionment of expenditures throughout the fiscal year) might be used to withhold some funds, provided the functions were carried out. In connection with some of the emergency spending and lending agencies the President has at times

¹ Such a criticism has been voiced in the *Special Report of the Committee on Federal Expenditures* (op. cit., 222) which notes:

Headings in the appropriation acts have also grown up haphazardly over a long period of years. In some instances headings no longer indicate the real activity for which expenditures are made and similar activities in different departments may appear under quite different heads. In some cases appropriations are in lump sums, while in others for comparable purposes, they are detailed and specific. This results in confusion, and since an account must be opened for each appropriation head, the lack of standardization is reflected in the accounting system making it difficult to keep satisfactory book records.

² Willoughby, op. cit., p. 186.

certain functions may not be decreased. In addition to these a number of emergency decrees have been enforced since the fiscal crisis of 1931. At present broad measures in the execution of the Amusement subject to modifications by the government. Any under dem be subsequently confirmed by Parliament. Transfers of basic le followed except in cases where the privilege has been the time of voting. The Minister of Finance with the of the Council of Ministers may authorize new expen- It will de necessary by new developments.

etary prase of Rumania, Chapters classified according to organ- be of pa and functions are subdivided into Articles that form departed of voting. There are the usual permissive retrenchment in Fran which many countries seem optimistically to grant to their The lar Ministers. Transfers are restricted by the fact that all by Parrs or unnecessary appropriations accrue to the special funds 41 of ned in the budget of each organization for the purpose of and thug emergency activities. These reserve funds finance new ficatio as well as increases in old ones. Approval of the Minister appeance is necessary before the department may have recourse the C funds accumulated by it. What is most effective in check- that he widespread reliance on non-voted outlays in some of these Somler units is the absence of credit facilities which would permit of easy financing of deficiency items, as is done elsewhere. Corf may be well to review the status of the execution phase arrange- crents in the United States federal government before a study is —dertaken of the practices in some of the nations where delegation power to the executive is less exceptional. This survey follows the next chapter.

CHAPTER XLIV

NATIONAL BUDGETARY PRACTICES DURING THE EXECUTION STAGE (CONTINUED)

United States Federal Government

With respect to voting our federal practices differ somewhat from those found in Great Britain. There is no standard unit for the voting of the appropriations, though these have usually been set up in great detail and classified according to departments. More recently the recovery and relief measures have led to the voting of vast amounts in lump sums subject to executive allocation. This is not the usual procedure but may herald a new trend. There has been some criticism of the American practices because the budgetary appropriation bills do not conform to the best standards of classification and detail.¹ Salaries and public works expenditures have since 1921, as well as before, been the target of much criticism and objection. It is evident that the practices might benefit from revision, and that administrative as well as economic advantages would be derived. In this respect federal practices cannot be accepted as models for the states.

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² Willoughby, op. cit., p. 186.

restricted expenditures through executive orders and reduced lending authorizations.

The federal government has not had any wide experience with extra-legislative cuts.³ The objections to this type of budgetary control are not as great as those that could be summoned against horizontal decreases which ignore functions and activities and which allow for little or no exercise of discretionary powers. There are, however, grounds for strong doubts that any jurisdiction that can possibly avoid such measures should invalidate the wishes previously expressed by the executive in preparing and the legislature in voting the budget appropriations. Efforts should be in the direction of eliminating the necessity for any change. The "Argument in the Negative" as presented by the United States Chamber of Commerce Committee reflects this viewpoint in its discussion of the suggestion that the President be given

express statutory authority to reduce expenditures of a non-mandatory sort wherever he found reductions to be feasible.

The Report continues:

This proposed power would not extend, of course, to the payment of interest on the public debt or to the other fixed contractual obligations of the United States. Nor is it probable that the Committee intends that the proposal should include a power to reduce the salary schedules of the classified employees of the government. But obviously it would include the power to say that aside from obligations of this general nature, the expenditures of a particular unit, or for a particular object, should be cut anywhere up to 100 per cent. In effect, this would transfer a large portion of legislative power from Congress to the executive department. When Congress has created a bureau to perform particular duties such as these and has appropriated a specific sum to carry out the duties imposed, such action would seem to reflect the judgment of Congress that these duties shall be carried out as fully as they can be within the limits of the sums appropriated. This is a normal exercise of legislative power. It is then the duty of the executive department to perform the duties imposed.

The power to say that these duties shall be performed only partially, or not at all, obviously pertains to the abrogation of the law rather than to its execution. Such a power is as clearly an exercise of legislative power as is the making of the appropriations itself. Congress cannot, consistently with its duties under the Constitution, abandon this field to the executive department.⁴

³ A proposal to impose 15 per cent of all appropriations for the fiscal year 1938 has been made. Appropriations for debt service, social security, and veteran pensions would be excepted. According to the proposed measure the President would receive the power to restore from 1 to 15 per cent to any department at his discretion. (See N. Y. Times, April 28, 1937.)

⁴ Report of the Special Comm. on Federal Expenditures, *op. cit.*, p. 19.

As far as actual economy measures are concerned, there was a novel example of such legislation in connection with the appropriations for the fiscal year 1932-33. The granting (by express statutory legislation) of powers to the President to amend the appropriation acts already voted probably established a precedent in federal budget procedure. A permanent grant of power to the President to modify approved expenditures was not involved. Instead a Congressional mandate for the carrying out of certain specific measures in a particular period was expressed. The act and the philosophy it admits is of interest because it presents, in national terms, some of the alternatives to the devices discussed below for the states.

The Economy Bill, "An act to maintain the credit of the United States Government," contained two features.⁵ The first embodied a specific fiscal policy with respect to veterans' pensions and other payments. The Administration, in its early days, sought in the interest of further economy to revise the measures in appropriation acts which had been voted on the basis of the budget proposals of the outgoing administration. The Economy Act Bill offered, in connection with its provisions on veterans, an opportunity for the new President to assert his own interpretation. Elements of execution stage modifications are not involved. The practice implied supplementary or corrective voting. Similar defects due to the outgoing Administration's power over the new budget have been eliminated by the Twenty-first Amendment. In connection with the general outlays, which were treated in the second part of the bill, elements of both corrective budget voting and execution devices were present. The proposed features of Title II, when submitted, were summarized as follows:

The bill provides as to Federal salary changes:

Reduction of salaries of Senators and Representatives from \$10,000 a year to \$8,500.

Repeal of the administrative furlough act and substitution of a "cost-of-living" formula based on the decrease in commodity prices between the six-month period ending June 30, 1928, and the average for the six-month period beginning Jan. 1, 1932.

Authority for the President to reduce compensation of all government officers and employes, including officers and enlisted men of the armed services, on a percentage basis in accordance with the reduced cost of living as determined by the Executive, excepting only those officers whose salaries under the Constitution cannot be reduced during their terms.

Limitation of specific reductions to a maximum of 15 per cent.

Limitation of the effectiveness of the above salary provision to one year.*

⁵ Public No. 2, 73rd Congress, approved March 20, 1933.

⁶ N. Y. Times, March 11, 1933.

Several elements of the execution phases are notable and may be cited in view of the failure of the states to adopt them.

(1) The bill refers only to salary and other forms of remunerations paid to individuals. No outlays for materials, supplies, public works or payments for impersonal services are involved. A vast area of public expenditures, exclusive of contractual debt services, is not touched by the powers granted to the President.

(2) The cuts are limited to 15 per cent but within this maximum are based on indices of economic conditions. This is expressive of a particular philosophy regarding savings and is not linked to revenues or any other measure that reflects solely the ability of the Treasury to meet any burdens. The device as outlined in the Act⁷ could serve a jurisdiction only if the relation between the reductions and revenue yields was disregarded since a correlation between a drop in the cost of living, subject to a 15 per cent limitation, and revenue yields is highly conjectural.

The results of carrying out the methods outlined in the Economy Act were not fruitful. Salary decreases were made. However, not many months after the passage of the Act the Administration embarked on a loan-expenditure recovery program. The segregation of the emergency outlays facilitated the economy emphasis on the ordinary or regular budget outlays. There is some support for the contention that the impaired budgetary unity enabled the somewhat paradoxical economy and spending policies to continue side by side. The salary slashes were voted as a feature of the

⁷ The text of the Act dealing with pay cuts follows:

Sec. 2. For that portion of the fiscal year 1933 beginning with the first day of the calendar month following the month during which the act is enacted, and for the fiscal year ending June 30, 1934, the compensation of every officer or employee shall be determined as follows:

(a) The compensation which such officer or employee would receive under the provisions of any existing law, schedule, regulation, executive order, or departmental order, shall first be determined as though this title (except Section 4) had not been enacted.

(b) The compensation as determined under sub-paragraph (a) of this section shall be reduced by the percentage, if any, determined in accordance with Section 3 of this title.

Sec. 3. (a) The President is authorized to investigate the facts relating to the cost of living in the United States during the six months' period ending June 30, 1928, to be known as the base period, and upon the basis of such facts and the application thereto of such principles as he may find proper, determine an index figure of the cost of living during such period. The President is further authorized to make a similar investigation and determination of an index figure of the cost of living during the six-months' period ending Dec. 31, 1932, and each six-months' period thereafter.

(b) The President shall announce by Executive order the index figure for the base period and for each subsequent period determined by him under paragraph (a) of this section. The percentage, if any, by which the cost of living index for any six-months' period, as provided in paragraph (a) of this section, is lower than such index for the base period, shall be the percentage of reduction applicable under Section 3 (b) of this title in determining compensation to be paid during the following six-months' period, or such portion thereof during which this title is in effect, provided, that such percentage of reduction shall not exceed 15 per centum.

next year's budget. Full payments at previous levels were restored beginning with the budget for the fiscal year 1935-36.

The granting of post-voting retrenchment powers based on cost of living indices is a rather unique practice. There are no examples of it in the American states though the experience with execution stage economy powers in these jurisdictions is indeed wide. In some of the national governments, particularly Germany, relating governmental salaries to price levels was rather common in connection with the formulation and voting of appropriations. The practice does offer some fruitful possibilities for the American political subdivisions troubled with their lengthy budget periods. While retrenchment measures based on price movements may be deflationary in character, they are far less objectionable than are measures of fixed percentage cuts or economies linked to revenue yields. The difficulties that come first to mind are those connected with the determination and measurement of significant prices and the adequacy of the savings. The chief advantage in the device is that it represents a selective economy philosophy and that crude horizontal slashes are avoided.

The federal system does not provide extensive transfer privileges.⁶ They are forbidden except in the case of appropriations for the Agriculture, and Navy and War Departments. Here certain minor transfers between subheads are permitted. The transfers are allowed by virtue of specific reference to such authority in the appropriation acts for the departments. References to those transfers are not embodied in the general budgetary legislation but any appropriation of funds may carry the privilege of transfers through specific mention in the enabling act at the time of authorization. The granting of special privileges to the defense services is not a unique phenomenon and is unquestionably linked to the special needs of the War and Navy Departments.

In view of the short-lived interest in economy as the motive behind fiscal and budgetary policies, the situation with respect to added items is of interest, although there is less relevancy to the problems of the states. The most frequent method is for Congress to vote deficiency grants for expenditures in excess of the amounts appropriated. The practice of lumping together deficiency appropriations and proposed appropriations for new activities has elsewhere been noted and it was seen that they are not subject to the strict and formal procedures that characterize the British system. At this point it remains to be seen whether the execution methods fail to prevent unnecessary deficiencies and whether they restrict the appropriations that are made to unforeseen or unpredictable emergencies and to specific expressions of revised legislative will.

It is evident from the discussion that the problem has raised that one source of abuse is absent. There does not appear to be any system, as is frequently noted in other countries, whereby the

⁶ Buck has noted "the transfer of appropriations in the national government of the United States is quite limited, Congress preferring to maintain the rigidity of detailed appropriations." Buck *l.c.*, p. 250.

executive may permit outlays in anticipation of subsequent Congressional authorization. The Deficiency Act, passed by Congress each year, contains outlays to be made and is based on existing or potential needs. There is no post-regularization of outlays already made. The execution provisions, in addition to the connections to be made by improved preparation and voting, should decrease the necessity for calling upon Congress to vote added funds and pile up the current year's outlays.

The federal government does not regularly provide for reserve appropriations nor does it anticipate, in relating income to expenditures, the deficiency need that inevitably arrives. The allotment practices may cause a portion of the voted totals to be set aside for reserves, but these provide for expected and no doubt predictable emergencies. A large number of jurisdictions accumulate reserve funds which are periodically replenished and for which revenues are provided at the time of the voting of the budget program.

Elsewhere reference has been made to repeated efforts on behalf of Congress to minimize deficiencies. The allotment of appropriations over the fiscal year has been a basic element of the anti-deficiency campaign which can be traced as far back as 1870. The present practice has been summarized as follows:

Under an executive order issued in June, 1933, each of the "regular" establishments, that is, those not designated as "emergency," submits its proposed expenditures to the Budget Bureau indicating how much is to be spent each month. There is first set aside a moderate reserve for contingencies and the remainder divided among the twelve months. If the allotments seem reasonably apportioned to meet seasonal or other requirements and if the total, including the reserve, does not exceed the appropriations for the year, the allotments are approved. Subsequently, no unit is expected to spend in any month more than the amount indicated in the submitted schedule unless, because of unforeseen emergencies, additional expenditures are approved.⁹

The reference to "regular" agencies recalls the fact that under the Roosevelt Administration many spending units were exempted from this phase of the budgetary procedure. Reference has elsewhere been made to steps that have been taken to increase the comprehensiveness of the system by subjecting the newer spending agencies to the same allotment provisions.

It is evident that new legislation is not necessary since existing statutes together with executive and legislative cooperation could cope with the situation. The provisions of the United States Code, quoted by the Chamber of Commerce Committee, appear to be adequate for necessary control.

No executive department or other government establishment of the United States shall expend, in any one fiscal

⁹ Report of the Special Comm. on Federal Expenditures, *op. cit.*, p. 14.

year, any sum in excess of appropriations made by Congress for that fiscal year, or involve the government in any contract or other obligation for the future payment of money in excess of such appropriations unless such contract or obligation is authorized by law. Nor shall any department or any officer of the government accept voluntary service for the government or employ personal service in excess of that authorized by law, except in cases of sudden emergency involving the loss of human life or the destruction of property. All appropriations made for contingent expenses or other general purposes, except appropriations made in fulfillment of contract obligations expressly authorized by law, or for objects required or authorized by law without reference to the amounts annually appropriated therefor shall, on or before the beginning of each fiscal year, be so apportioned by monthly or other allotments as to prevent expenditures in one portion of the year which may necessitate deficiency or additional appropriations to complete the service of the fiscal year for which said appropriations are made; and all such apportionments shall be adhered to and shall not be waived or modified except upon the happening of some extraordinary emergency or unusual circumstance which could not be anticipated at the time of making such apportionment, but this provision shall not apply to the contingent appropriations of the Senate or House of Representatives; and in case said apportionments are waived or modified as herein provided, the same shall be waived or modified in writing by the head of such executive department or other government establishment having control of the expenditure, and the reasons therefor shall be fully set forth in each particular case and communicated to Congress in connection with estimates for any additional appropriations required on account thereof. Any persons violating any provisions of this section shall be summarily removed from office and may also be punished by a fine of not less than \$100 or by imprisonment for not less than one month.¹⁰

For that portion of the deficiencies that can be traced to lax and avoidable methods the comment of the Chamber's Report is entirely correct.

The statute here quoted is comprehensive and emphatic. Its enforcement need not wait upon the grant of any further powers to the President. That official now has ample power to warn the spending agencies that the law must be obeyed, and to order the Department of Justice to prosecute any wilful violator of the law, and so far as the spending officers are under the President's constitutional power of removal, the consequences of the law's violation may be made

¹⁰ *Ibid.*, p. 17.

even more effective. The President need simply to announce that the statute quoted above must be obeyed until repealed by legislative authority, and that he will look upon wilful violation of the statute as sufficient ground for the summary dismissal of the guilty official. It is scarcely to be expected that warnings of such a nature would be disregarded.

It would appear, therefore, that if the laws now on the statute books and designed to reduce deficiencies to the absolute minimum are enforced, further legislation to achieve this end will be unnecessary. On the other hand, if the laws designed to meet the evils of deficiencies are not to be enforced, little is to be gained by their multiplication.¹¹

What is required is a will and a tradition which should be recognized in all three stages and which would culminate in a removal of the abuses associated with deficiency appropriations. If the comments of the students of the federal finances are justified, the system needs a new orientation on the part of those who guide and administer it.¹²

Summary: Practices of Democratic Governments

Before the practices in a few other jurisdictions are noted, the execution phases of the federal government and of the other nations except those in the British Empire group, can be summarized with a view towards noting the basic attitudes that are taken. The relation of the practices to the problems of the American states will be traced.

In the matter of voting units American federal practice is similar to that noted for all the other national units outside of the British Commonwealth. It is questionable whether some of the great recovery and relief items can at this time be pointed out as indicative of a new philosophy affecting the recurring outlays. In spite of the widespread discussion of the problem none of the nations have committed themselves to a policy of omitting itemized appropriations. The fact that public works projects and kindred outlays are voted in large units does not necessarily denote any changes.

A striking similarity is also found in connection with the legal sanction given to the executive agencies of the governments to withhold appropriations. The nations, with perhaps the exception of France and the United States, would belong in the classification of the states that have adopted permissive post-voting economy measures. The two great democracies have in the past decade made one or more attempts each at aiding their

¹¹ *Ibid.*, p. 19.

¹² Both the Chamber of Commerce Committee and the President's Committee on Administrative Management have pointed out that the accounting and expenditure control practices of the federal system are subject to improvement. Comments of students of budgetary matters confirm this.

economy efforts by giving to their executives greater post-legislative retrenchment powers than they previously enjoyed. Furthermore, there are numerous instances of voluntary economies in the American federal finances.

Transfer privileges are not great and must be related to the degree of detail found in voting units. If the authority granted in statutes sanctioned transfers between voted units, the nations might be accused of what Buck has called the "pseudo-comic style" of the states that "persist in voting detailed appropriations, but allow them to be altered almost beyond recognition before the end of the fiscal year by the use of transfers."¹³ Of the group listed above only The Netherlands, Sweden, and the United States prohibit transfers between subheads of voted units. Elsewhere, Japan and Switzerland have similar restrictions.¹⁴ France does not allow *virements* within Chapters. The Northern European group does not look with favor upon transfers. With the exception of Sweden, they are allowed only under certain conditions. Nearly all the other nations require specific legislative sanction for transfers to be given in advance. The federal government has in the past seen such sanction granted only to certain spending agencies.

In connection with the devices employed to empower the executive to meet emergencies and to act without legislative sanction, France stands out in a manner that is typical of its deficit encouraging system. Together with Hungary, the French give to their executive a leeway that undoubtedly exceeds the interests of fiscal or economic efficiency. The German Republic with its limited spending powers, the small group of nations that make adequate appropriations to reserve funds, and a group, including the United States, which rely solely on legislative action, are inherently in a better position. Even if their systems encourage waste in the spending of the reserve funds or encourage supplementary and deficiency appropriations, there is a greater opportunity for the legislatures to coördinate all outlays with revenues. A reserve fund is most desirable since it focuses attention on the financing problem at a time when the balancing zeal is at its greatest. The regularization of outlays already made is the weakest way to assure a balanced budget. In the European nations that have not been surveyed above, the usual practice appears to be one in which the executive is empowered to make emergency outlays up to a limited amount. The provisions that were in force in Spain seem to have anticipated future events. It was stated that

The Government cannot exceed the credits voted and cannot effect expenditure for which there is no corresponding credit, unless the Cortes grants it supplementary or extraordinary credits for this purpose. The Constitution,

¹³ Buck II, *op. cit.*, p. 251.

¹⁴ *L. of N. Tech. Comm., op. cit.*, Vol. II, p. 82, p. 126.

however, provides for the grant of supplementary or extraordinary credits by decrees of the Council of Ministers when the Cortes is not sitting, in case of war or threat of war, serious disorders or the threat of serious disturbances of the public order, public calamities or international obligations.

The procedure requires the preparation of a file proving the absolute necessity and urgency of this expenditure and the submission of a report by the General Audit of the Administration of the State and the State Council on such cases. In order to acquire force of law, the decrees granting such credits must be first submitted to the Court of Audit of the Republic. At the first sitting of the Cortes, the Government must give an account of the credits which it has granted by decree and communicate the files drawn up for the purpose.¹⁵

The experience is clear. The American states that can afford it should vote programs that they can retain, and allow changes only in the interest of added and better services. Judging from what has been said about state financial resources, the nations have little that can be offered as a budgetary solution. They have acted under no similar fiscal pressure, and have relied on more frequent legislative supervision. Furthermore, they have been distrustful of executive discretion.

Other Nations

Italy

Several nations in which extensive dictatorial powers are known to exist conclude the survey of those systems that are comprehensively reviewed. The distribution of special fiscal powers and duties to the executives are of nominal interest. The discussion will, therefore, be restricted to a descriptive nature. In Italy the items classified according to related subject matter in each Ministry are subdivided into Chapters and units. Chapters designated by name and number correspond to budget estimates and remain as units in all stages of budgetary planning. As a feature of the various economic programs and the general power of the government, great authority with respect to the modification of budgetary estimates has been conferred on the Finance Minister. However, transfers between Chapters are not allowed, since they may tend to disrupt the planned control. Only Articles, the units into which the Chapters are subdivided, may be transferred within the Chapters. With respect to increases or new items each Minister, with the consent of the Finance Minister, may make additional expenditures up to 150,000 lire for items in the voted Chapter. Furthermore, each ministerial budget carries a reserve fund appropriation which may be drawn upon if prior consent of the Minister of Finance has been received.

¹⁵ *L. of N., Tech. Comm., op. cit.*, p. 117.

Legislative approval for other changes is frequently requested and granted. In general, however, royal and ministerial decrees appear to be able to achieve much that elsewhere requires legislative voting. The formal consent of Parliament is obtained or the legislature subsequently ratifies all acts indicating that the legal framework of parliamentary government is retained.

Greece

The Greek system does not indicate the true distribution of powers. Items are classified in great detail according to departments. Units of Chapters, subdivided into Articles, are used. A judicial control over expenditures as well as a judicial accountability is noted. This is the only instance that has come to the writer's attention in which a judicial body has assumed such powers. The rôle of the accounting judges in budget preparation functions has already been mentioned. The Court of Accounts must previously authorize all actual expenditures made. These strictly follow the Chapter and Article classification of the appropriations. The Court, just prior to the advent of the most recent dictatorship, was prohibited from authorizing any basic changes. Transfers were, therefore, prohibited. The provisions for increased or emergency expenditures are not known, although there is some indication that they were previously taken care of exclusively by means of legislative action.

The U. S. S. R.

In Soviet Russia there is a detailed subdivision of Chapters classified according to departments, institutions, and functions. Sections and Articles are subheadings of the Chapters. The latter are considered to be the voting units. The *Sovnarkom* has the ultimate power over any modifications in the budgetary program. Subsequent confirmation of its action by the Central Executive Committee is necessary. The various agencies that execute the budget apply to the *Sovnarkom* for permission to make any needed revisions. The transfers that may be made are as follows:

- (a) within a paragraph of a department's estimate—by the head of the department,
- (b) from one paragraph to another—by the head of department but only with the assent of the Commissary of Finance,
- (c) from one chapter (departmental estimate) to another—by a resolution of the *Sovnarkom*.¹⁶

Funds for new or unforeseen items, for which other moneys are not available, are defrayed from the reserve fund voted in each Union budget. Appropriations from this fund are made by the *Sovnarkom*, and together with all other revisions, must

¹⁶ *The Budget System of the U. S. S. R.*, op. cit., p. 8.

be ultimately regularized by the Central Executive Committee. Other methods that are in keeping with Russia's economic and political structure are also noted.

Turkey

In Turkey Ministerial appropriations are classified by Articles and subdivided into Chapters and Titles. The Articles must be adhered to as voted although considerable leeway is found with respect to the rearrangement of subheadings. The fiscal policy of Turkey has recently necessitated extreme economy in expenditures, and a large degree of executive power over spending with a view towards instituting expenditure reduction has been noted. Transfers may be made with the approval of the Minister of Finance although he is restricted somewhat in the type of transfers for which he may grant his approval. Each budget carries a reserve credit vote that finances needed expenditures above appropriations. There is, furthermore, a credit for unforeseen expenses to which recourse is had with the approval of the Finance Minister. It is also not difficult to perceive that other outlays not originally voted are possible.

Summary and Conclusion

The practice outlined for those nations that are popularly associated with a breakdown of democratic institutions are misleading if they are used to evaluate practices elsewhere. In Russia it is evident that until now¹⁷ the system has not been related to a legislative background. Most of the nations retain legislative institutions, the difference lying in the one-party character of the membership and the agreement on policy that is found between the executive and Parliament. Some of the provisions are, therefore, examples of practices that were adopted for now outmoded governmental institutions and may be considered apart from the *modus operandi* of the nations to which they refer.

It is a negative conclusion that is gained, for the benefit of the American states, from a survey of national execution stage procedures and provisions. The nations with enviable reputations do not vote lump sum appropriations. Neither are wide transfer privileges found. There has been little necessity for mandatory economy measures. In general, the opportunities for frequent legislative revision, implying a chance for expenditure and revenue modification, seem to obviate the need for elaborate execution stage devices. Where such are found their value is subject to question. The American states can, however, profit from the experience of some national governments in providing for the financing of unpredictable or emergency needs. Fiscal

¹⁷ The practices outlined in the new constitution of the U. S. S. R. have not been considered.

policies, whether they be orientated towards deficits or balanced budgets, can best be established through planning and voting. The budgetary systems should aid in giving to the promulgated plan the attributes of long survival. The execution stage devices should allow for the adjustments necessary in aiding the accomplishment of the chosen goals. Minimizing the influence of unpredictable occurrences represents such an adjustment. Voting a budget program and attempting to reach some desired revenue-expenditure relation through a wide disregard of its implied policies is not a practice that commends itself. In the discussion of practices in the American states, which follows in subsequent chapters, only the group that discourages post-voting modifications may be related to most national units. Most of the other states in which post-voting revisions are permissive or mandatory, are victims of circumstances with which the larger jurisdictions have not had to cope.

CHAPTER XLV

MANDATORY EXPENDITURE REVISION STATES

This chapter discusses the interesting experiments carried on by several states, primarily in the South, to achieve some degree of coördination of expenditures with revenues during the execution stage. These practices, which are most effective as methods of balancing budgets, are the result of inadequate fiscal systems, violent economic crises, and defective budgetary mechanisms. Their existence is to be considered symptomatic of fiscal disorder rather than as a solution of any difficulties. It will be shown that unsatisfactory methods of retaining a planned expenditure-revenue relation are involved and that chiefly undesirable economic and social reactions are implied. It is regrettable that circumstances have forced many of the American commonwealths to neglect the qualitative aspects of balanced budgets and to adopt a purely quantitative viewpoint.

The states surveyed in this category include Alabama, Arkansas, Florida, North Carolina, Ohio, South Carolina, and Tennessee. Arkansas is included because of a related economy policy. It has not been possible to trace the functioning of the retrenchment mechanisms. The provisions of the devices are listed, along with several other elements of the execution stage, in order to show the nature of the solutions to the problem of adjusting state finances to fluctuating economic backgrounds.

Alabama

A method typical of this group is found in Alabama. In that State all appropriations, except those made on a per capita basis to eleemosynary and correctional institutions, were deemed to be maximum, conditional, and proportional. According to an Act passed in 1932 the Governor is given control over the execution and modification of the budget program and is authorized to make the expenditures in full only when adequate revenues are available.¹ It is interesting to note that the procedures involved

¹ A portion of the enabling legislation [Ala. Gen. Acts (extra sess. 1932) § 19], known as the Fletcher Act, follows:

All appropriations . . . are hereby declared to be maximum, conditional and proportionate appropriations, the purpose being to make the appropriations payable in full in the amounts named only in the event that the estimated budget resources during each fiscal year . . . for which such appropriations are made, are sufficient to pay all of the appropriations in full. The Governor shall restrict allotments to prevent an overdraft or deficit in any fiscal year for which appropriations are made by prorating without discriminating against any department, institution,

have become a feature of the basic budgetary legislation of the State. There are quarterly allotment periods; thus Alabama's fiscal period—the quadrennium—contains sixteen. At least twenty days before the beginning of each fiscal quarter the various departments must submit their requests for allotments. The Governor approves such allotments or changes them, as is deemed essential. He has no great discretionary power. He may not reduce the total annual appropriations except in proportion to the amount of funds available. The Governor must disregard the economic necessity or the desirability of favoring one type of expenditure over another. The writer has been informed of a Court decision that did not correct the evils associated with horizontal cuts although it did permit a classification to be made in the outlays subject to the Act.²

The duty to cut expenditures is restricted to the general fund elements in the fiscal program. The continuing appropriations are not affected. Likewise appropriations from assigned revenue and all departmental and institutional receipts are not subject to any allotment or prorating under this enforced economy Act.

The most interesting feature of this drastic measure is that it still could not cope with the type of administration and the budgetary standards that are found in Alabama. The carrying out of an economic and socially motivated retrenchment program, which experience indicated as imperative for the State, does not appear to have been accomplished when the legislature voted a new budget.

A great deal of litigation has grown out of the provisions of its economy practices. The cases were still in process during 1937. The Fletcher Act with its complicated interpretation and administration, Alabama's quadrennial budget period, and the other features of its system which have been noted are outstanding examples of notorious budgetary practices. The following comments written by a local observer three years after the passage of the Fletcher Act explain the status of its administration at that time.

The Fletcher budget act was passed as an emergency measure to stop the annual deficits which had resulted in a floating debt of approximately \$20,000,000. The primary importance of this act is to prohibit expenditures under any appro-

etc. . . . the available revenues among the various departments, institutions, etc.

The purpose of this provision is to insure that there shall be no overdraft or deficit in the several funds of the state at the end of a fiscal year, and the Governor is directed and required to administer this Act so as to prevent any such overdrafts or deficits.

² Although the law provides for an equal proration of available funds among the different agencies, according to the appropriations, the Supreme Court has upheld a classification of functions according to essential and non-essential. Accordingly, Education and Public Health have been suffering under drastic cuts in payments as compared with appropriations. This aspect of the budget law has obscured the interest in budget as such. Letter from Professor Paul E. Alyea, University of Alabama, under date of January 19, 1937.

priation made in excess of the cash balance held by the treasury for that purpose. Probably the failure of budget practice to conform to statutory requirements is due to the continuation of inadequate revenues. This has raised the question of apportionment and as a result the precise legal basis of apportionment was not settled in time for the preparation of a complete budget. However, I am of the opinion that inertia, indifference, and an inadequate understanding of the purposes of a budget largely are to blame for the administrative neglect of many of the provisions of the Fletcher Act.³

In connection with the other execution stage practices there appears to be some difficulty growing out of the inefficient accounting and reporting features of the State's financial administration. It is evident that very careful accounting must accompany an apportionment scheme that functions on the basis of current fiscal developments. That the State lacks such a system is a matter of common knowledge. The other elements of the execution phase that are noted below, with one exception are of little immediate value in searching for possible points of improvement.

The unit of voting is of minor importance since any slight revisions or any savings that might be made by intra-unit shifts are relatively unimportant in face of the above-mentioned horizontal cuts. There is some indication that the line budget method is observed and that with the exception of capital outlays, great detail in respect to appropriations is maintained. The State does not permit the transfer of appropriations.

There is a provision regarding emergency appropriations that is of interest in view of its strange relation to the State's attitude towards inherent stability. If successfully developed it might mitigate some of the harsher elements of the system. A feature of the Fletcher Act provides that the budget appropriation bill shall contain a specific fund for emergency appropriations.⁴ Departments seeking such funds, for purposes for which an insufficient appropriation or none at all was made, must submit requests. The Governor is empowered to make allotments from the Emergency Fund but he may make these only for functions authorized by law. The provision does not, therefore, permit the Governor to initiate services, and is not to be interpreted as a method of overcoming successfully the long intervals between legislative sessions. If the sums appropriated were adequate and the administration sound, Alabama would in this respect be in a better position than most states in its correction of estimating errors.

Few states can look forward to as much improvement in their budgetary systems as can Alabama.

³ *Ibid.* Letter under date of July 19, 1935.

⁴ Ala. Gen. Acts (extra sess. 1932), § 23.

Florida

In Florida the appropriations are maximum and subject to pro-rata cuts according to the availability of revenue. The system is relatively new and contrasts with the neglect of execution phase flexibility displayed in Florida prior to the advent of the depression.⁵ The new procedure is not unlike that found in Alabama. When in the opinion of the Governor revenues will be inadequate to meet expenditures he is required to inform the Budget Commission of this fact. This body is then required to adjust or reduce the expenditures of the agencies in order to bring them within the amount of the estimated revenues. Should the Commission fail to act the Governor may make the necessary adjustment by Executive Order. It is noted that neither the Governor nor the Budget Commission has the power to eliminate any department in the course of making such adjustments. The law does not make any exception of functions outside the general fund budget, and it may be assumed that the prorating affects these as well.

Furthermore, preference previously accorded appropriations for schools has been abolished following an invalidation of the practice by the State Supreme Court.⁶ These duties of the Governor in prorating appropriations are followed up with the provision that no expenditure may be made from the general fund until it has been ascertained that sufficient revenues are available.

Florida's budget law requires its appropriation bills to be classified as in the budget, namely, by organization units subdivided according to functional criteria. The detail is such that no attempts at executive revisions could be anticipated. The futility of linking transfer privileges to such detailed voting has already been indicated. Nevertheless, the practice of making transfers was permitted prior to the crisis. It was on the statute books before the adoption of the basic modification provisions. Appropriations for salaries, when not used, may be transferred to other purposes by department heads. The fact that the Governor has the power to transfer money from one fund to another compensates for the detailed voting. These transfers are in the nature of revenue anticipation warrants since they must be repaid as soon as

⁵ Commenting on the pre-depression budget system an official report stated:

No provision is made in the budget law for the execution of the budget. The law stops with the budget when it is handed to the legislature for conversion into appropriations. It is only by indirection from sections in the constitution and in the statutes having to do with appropriations that control of its execution is secured, and that very vaguely. The constitution provides that the treasurer shall disburse no funds except upon the order of the comptroller, countersigned by the governor, and that no money shall be drawn from the treasury except in pursuance of appropriations made by law. *Report of the Special Committee on Taxation and Public Debt in Florida, op. cit., p. 26.*

The statement overlooks the provisions sanctioning transfers that were in force.

⁶ Letter from Bryan Willis, State Auditor, Tallahassee, under date of January 23, 1936.

revenue becomes available.⁷ Apparently the State has no legalized methods of dealing with emergency needs that arise during the biennium when the legislature is not in session.

North Carolina

In North Carolina there is provision for allotments which operate with a consideration of appropriations as maximum, conditional, and proportional. The drastic execution stage device is embodied in the general budget law passed in 1931.⁸ A system of quarterly allotments by the Budget Director is used. Requests for funds must be made by the agencies to the Bureau of the Budget in writing. Before the Bureau approves them they must be accepted by the Governor and the Council of State. The Director of the Budget is authorized to survey the progress of collection of revenues, and with the advice and consent of the Advisory Commission, to determine the amount that can properly be collected in each quarter. Data are supplied by the revenue collecting agencies. In the words of the statute the Director of the Budget, with the consent of the Advisory Commission "may reduce all appropriations pro rata when necessary to prevent an overdraft or deficit for the fiscal period for which such appropriations are made." It will be recalled that the highway activities of the State were excluded from any of the budgetary provisions. Furthermore, a special law prohibited any reduction in school appropriations;⁹ this is a somewhat more enlightened interpretation of the importance of educational functions than is found in Alabama where their inclusion in the "non-essential" classification hit at school funds.

North Carolina requires its appropriation bills (and the allotment scheme) to follow the budget classification. This is one, as is usually the case, implying great detail. The basic law permits transfers between items in the budget for departments, institutions, or any spending agency. Requests for transfer authorizations from the heads of departments must be approved by the Director of the Budget.

There are also provisions for emergencies. In order that "all expenses of the State may be brought and kept within the budget,

⁷ The Governor with approval of the Comptroller may, if one fund has excess and the other deficiency, order a temporary transfer of funds from one fund to another. Such moneys must be returned as soon as practicable. Fla. Comp. Gen. Laws Ann. (C. Skillman, 1927), § 1365.

⁸ The statute covering this procedure notes that

the purpose being to make the appropriations payable in full in the amounts named herein if necessary and then only in the event that the aggregate revenues collected and available during each fiscal year of the biennium for which such appropriations are made are sufficient to pay all the appropriations in full; otherwise, the said appropriations shall be deemed to be payable in such proportion as the total sum of all appropriations bears to the total amount of revenue available in each of said fiscal years. N. C. Code Ann. (Michie, 1931), § 7486-993.

⁹ *Ibid.*, c. 37.

Appropriations for the six months school term may not be determined during the school term but must be paid in full,

the budget appropriation bill shall contain a specific sum as a contingent or emergency appropriation."¹⁰

South Carolina

South Carolina is indicated as having adopted an execution policy typical of this group. Its depression economy measure, including the factors leading to its adoption and some indication of its financial results, have been described in a recent survey of the State:

In an effort to live within expected revenue, the legislature reduced the appropriations of \$10,371,762.32 for 1931 to \$9,255,343.90 for 1932. (Acts of 1932, p. 1624. The amount appropriated for the fiscal year 1934-1935 was \$6,548,704.33—Acts of 1934, p. 1682. Thus the state has reduced expenditures from its general fund about 40 per cent since 1930.) Nevertheless, this figure proved to be approximately \$1,300,000 above the amount collected during the latter fiscal year. Again confronted with the perennial problem of operating the State government on a cash basis, the General Assembly in 1933 reduced the total appropriations of the previous year about 35 per cent. That is to say, approximately the same amount was appropriated for the period of eighteen months, extending from Jan. 1, 1933 to June 30, 1934 (made necessary to effect the change in the fiscal year), as was appropriated for the previous 12 months. Acts of 1933, p. 643. Moreover, the Budget Commission was empowered to withhold whatever proportion of this amount might appear necessary to maintain a balanced budget. The appropriation act of 1933 gave the commission full power and authority to survey the progress of the collection of revenue and the expenditure of funds by all departments and institutions and authorized this agency to make such reductions of appropriations as may be necessary to prevent a deficit during the period. It was provided that "no liability will be imposed on the State for the unpaid portion of any appropriation which may be reduced hereunder." Acts of 1933, p. 652. Consequently, the deficit carried over from 1932 was entirely absorbed during the fiscal period of eighteen months which extended from January 1, 1933 to June 30, 1934. The State government was at last on a cash basis with a balance of \$203,976 in the appropriations fund.¹¹

The scheme, as is noted, allowed for no partiality or discretion.

It is interesting to note that South Carolina had to resort to the drastic method of cutting expenditures in spite of the fact that it operates on an annual basis. It is the only annual budget State in this mandatory revision group.

Appropriations in South Carolina are voted in great detail, and therefore, severely limit the flexibility within the voted appropria-

¹⁰ *Ibid.*

¹¹ Coleman, *op. cit.*, p. 41.

tions to be exercised by discretionary control. The depression created difficulties that even a system of lump sum appropriations and a more liberal transfer practice could not correct. Coleman, in recommending an improved allotment scheme for the State, has the following comment to make on the unit of voting:

A satisfactory work program cannot be formulated when the appropriations are highly itemized. The desired flexibility in the execution of the program requires lump sum appropriations which are made practicable under the executive budget system. Detailed expenditures should be limited to the purposes and objects enumerated in the estimates for a major operation unit. Best results will be obtained in this way, for this gives administrative officers discretion as to their expenditures in the accomplishment of a specified purpose or object and at the same time places full responsibility upon them for efficient and economical management.

However, elsewhere the same authority notes:

Until the State of South Carolina has set up a responsible system of budgeting and fiscal control . . . it is hardly feasible to ask the General Assembly to adopt the general practice of lump sum appropriations.¹²

Transfers have been permitted for some time. The terms of a 1928 law stated that transfers of items in the appropriation law could be made upon the written approval of the Governor, the Chairman of the Ways and Means Committee, and the Chairman of the Finance Committee.¹³

According to a law passed in 1932 the transfer privilege was nominally restricted only to those appropriations that were specifically designated for such practices at the time of their adoption.¹⁴ This has apparently not created any necessity for considering the transfer privilege to be actually restricted since the enabling clause is added to all appropriation acts.

A still further effort to prevent uncontrollable deficits is seen in the fact that the State is required to provide a contingency fund. The Budget Commission constitutes a Contingency Fund Commission which may make allotments from this fund.

Tennessee

Tennessee also had to provide in an act for the compulsory reduction of expenditures by the executive. The provision was embodied in the General Appropriation Act of 1933. Its wording was as follows:

It is hereby made the duty of the Comptroller and Commissioner of Finance and Taxation to furnish quarterly to the

¹² *Ibid.*, p. 47.

¹³ S. C. Acts (1928), No. 712, § 69.

¹⁴ S. C. Code (1932), § 3143.

Governor, State Comptroller, and Treasurer statements of collections and estimates of revenue. And if it is apparent from such statement that the revenue is or will be insufficient therefor, then and in that event, all of the appropriations herein made, other than those which are fixed charges, such as State Debt and interest, Judicial Salaries, Cost of Criminal Prosecutions, and enforcing the laws of the State, etc., shall be reduced proportionately so that they shall come within the revenue. And the Governor, State Comptroller, and Treasurer shall by executive order put into effect this further reduction if and when it becomes apparent that the revenues of the State are insufficient to pay the appropriations herein made.¹⁵

According to the general provisions the control over the execution of the provision is carried out by means of the usual allotment and warrant system. The Governor could not normally make modifications similar to those that the Appropriation Act of 1933 authorized, but simply apportioned all voted outlays.

Tennessee did not require a uniform system of classification in its budget acts. As a result detailed appropriations as well as lump sum voting units are found. The possibility of being able to use lump sum appropriations and a system of intra-departmental transfers¹⁶ were not sufficient to avoid the necessity for crude economy measures, since major and drastic cuts rather than careful husbanding of appropriations stand out in the State's recent fiscal history. For some time previous transfers within departments have been permitted if made by the Commissioners with the consent of the Governor. Inter-departmental transfers are not permitted. Recently the various appropriation acts have specifically signified whether their component divisions are subject to transfers or not and thus overrule the general legislation on the subject.¹⁷

In his recently completed survey of Tennessee's fiscal system Professor Snavelly has called attention to a practice that undoubt-

¹⁵ Tenn. Pub. Acts (1933), c. 40, § 2.

¹⁶ No transfer of funds appropriated for any item in the appropriation for any state office, department, commission, board, or institution, shall be made except upon the written request of the chief officer or office, department, commission, board, or institution, to the budget commission, which request shall be granted in writing by the budget commission, if, in its judgment, such a transfer of funds is deemed necessary or expedient. Tenn. Code (Supp. 1926), § 230b13.

¹⁷ The transfer provisions in the 1933 appropriation acts have been described as follows:

The General Appropriation Act of 1933 provides: funds appropriated herein for specific purposes, as herein defined, shall not be used for any other purpose, and no funds appropriated for a particular division, bureau, institution, or department shall be transferred to or used by any other division, bureau or department. (Chap. 40, sec. 5.) The same act, however, provided for transfers in the Department of Public Health.

The Miscellaneous Appropriations Act for 1933 removed practically all limitations on transfers. It provided that the Commissioner of any department, with the approval of the Governor, could transfer appropriations from one division, classification or purpose to another. (Public Acts of 1933, Chap. 121, pp. 320-321.) *Budget System of Tennessee, op. cit.*, p. 9.

edly has helped towards the accumulation of deficits in that State. He states that overdrafts are tolerated. In order to cope with them Snavely recommends that:

No department agency or institution should be permitted under any circumstances to exceed the appropriation made by the legislature. . . The policy which has frequently been followed in the past under which a department might exceed its appropriation is not only unbusinesslike, but is extremely bad, and should not be tolerated.¹⁸

It is difficult to see what economic advantage the State will derive from a suggestion that appears elsewhere in the same study. The author remarks:

It has been the policy of the legislature to vote the Governor varying amounts for emergency purposes. Except for a small contingent fund, such emergency appropriations should be discontinued. In lieu of this practice, the Governor should be empowered with the duty and authority to make reductions in appropriations, if necessary, in order to maintain a balanced budget.¹⁹

The present writer takes exception to the proposal that the State refrain from voting reserve funds. These can do much in compensating for over-optimistic revenue estimates and in defraying the cost of unanticipated outlays which are inevitable in a biennial budget state. Furthermore, little support should be given any plan for placing a mandatory horizontal reduction scheme in the permanent budgetary legislation of the State. It is of interest to note that some states have followed France in changing the budgetary provisions to meet each crisis, a procedure that may present opportunity for abuse as well as advantages. South Carolina and Tennessee, by means of riders attached to appropriation acts, instituted major budgetary changes of far reaching significance.

Virginia

Mandatory pro rata reduction provisions were attached to two recent appropriation bills in Virginia. The duty to revise is not a feature of the State's basic budget law. The practice, growing out of the crisis, has been described as follows:

In the budget bill of 1932 a provision was inserted directing the Governor to make pro rata reductions in general fund appropriations to such an extent as was found necessary to prevent a general fund deficit for the fiscal period for which such appropriations were made. Acting under this authority the Governor ordered reductions in general

¹⁸ Snavely, *op. cit.*, p. 2.

¹⁹ *Ibid.*, p. 14.

fund appropriations for the 1932-34 biennium amounting to a maximum of thirty (30) per cent for the last year of the biennium, and to an aggregate of about \$7,300,000. This provision is contained in the budget bill for 1934-36, with the stipulation that such reductions shall not exceed five per centum.²⁰

This comment brings out two interesting features of Virginia's contribution to the maximum, proportional, and conditional appropriation philosophy. The first is the fact that only general fund appropriations are affected. This does not imply any widespread immunities because this State, as has been noted elsewhere, has wisely sought to abolish all special funds and to direct all revenues into the general fund of the treasury. Evidently the highway and school appropriations, the latter perhaps only in part, were excluded because their financing was not linked to the general fund. The immunity of highway funds from economy measures to which the social services of the State were subjected is not supportable on economic grounds.

The second feature is the percentage limitation that was introduced in the second adoption of the mandatory retrenchment clause. In doing this the State placed a "stop-loss" order on the extent to which outlays were to follow the vicissitudes of the revenue yields. The fact that the previous bienniums had seen cuts of almost one-third shows that a 5 per cent limit is important. A 5 per cent cut does not imply undue hardships. It can also be easily compensated for by inflated estimates if an opportunity for anticipation intervenes.

For some time the State has had statutory requirements regarding detailed voting units, these latter to be based on the specific items of budget bills.²¹ The Governor, however, may transfer funds within a Department, upon application of the head thereof.²² Inter-departmental transfers are not permitted.

²⁰ *Virginia Budget System, op. cit.*, p. 4.

²¹ Sec. 2577h. The governor also shall submit to the presiding officer of each house of the general assembly, at the same time he submits his budget, copies of a tentative bill for all proposed appropriations of the budget, clearly itemized and properly classified, for each year in the ensuing biennial appropriation period, which shall be known as "The Budget Bill". Va. Code (1924), p. 571.

Sec. 2577j. * * * All bills introduced in either house carrying appropriations shall be itemized in accordance with the classifications used in the budget. *Ibid.*

²² The following is an excerpt from a statute covering transfers.

None of the monies mentioned in this act shall be expended for any other purposes than those for which they are specifically appropriated, and it shall be the duty of the governor, as chief budget officer of the State, or his deputy, to see that this provision is strictly observed; * * * provided, however, that the several appropriations made by this act may not only be used for the purposes specified in this act, but authority is hereby given to the governing board of any State department, institution or other agency, or, if there be no governing board, to the head of such department, institution or other agency named in this act, to transfer, within the respective department, institution or other agency any

There is no indication that reserve funds are voted or allotted or that overdrafts are legalized. Intra-departmental transfers are alone available for contingencies.

Ohio

The financial difficulties encountered by this Commonwealth were responsible for the adoption of an execution system that is unique among states outside the Southern area. A financial official has described the experience of the State as well as the nature of its efforts toward a solution.

As the fiscal arm of the governor, the director of finance is required to pass upon the expenditures of all the offices, departments, and institutions of the state government, except those of the legislature and of the judiciary. These coordinate departments are not obliged to submit their expenditures to the scrutiny of the executive, but, in practice, for convenience, they do pass their accounts through the office of the director of finance. The control of the finance director, however, takes the form of a certificate that funds are available for the expenditures proposed to be made, and therein lies a weakness. It may have been the intent of the legislature that the issuance of this certificate should be discretionary with the director of finance. If so, that intent has been considerably modified by the decision of the Supreme Court in the Baker Case. At the behest of Governor Donahey, Mr. Wilbur Baker, then the director of finance, refused to issue a certificate for an expenditure proposed by the department of highways, although the legislature had made an appropriation for the purpose and funds to meet the appropriation were in the treasury. The court, upon this showing, held that the discretion of the director of finance was not absolute, but that, under the circumstances shown, he was bound to sign the necessary permission. In common practice, however, the power of the finance director to limit expenditures is very great. Only an order of court or the direction of the governor can coerce him into signing a certificate and neither method of coercion is often likely to be resorted to.

The hands of the finance director were furthermore, greatly, although perhaps inadvertently, strengthened by an Act of the legislature passed during the Donahey regime.

such appropriations from the object for which specifically appropriated or set aside to some other object deemed more necessary in view of later developments, subject, however, in every case, to the consent and approval of the governor, in writing, first obtained. (Va. Acts 1928, c. 110, § 19.)

(From *Compilation and Digest of the Executive Budget Laws of the Various States Relative to Control over Appropriations after they are made by the Legislature*, unpublished study prepared by the Legislative Reference Section, New York State Library, Albany, May 1929 (hereafter cited as *Compilation and Digest of Executive Budget Laws*).

In the course of the historic running of the disagreement with the several legislatures with which he had to deal, an Act passed providing that whenever the governor should ascertain that the revenues to be expected from the sources established by the law would, in all probability, be inadequate to meet in full the appropriations made by the legislators, the governor should restrict expenditures by so much as would bring them within the limits of expectable receipts. Some professed to believe that this law was enacted to embarrass the executive, but if it was, it was never invoked to that end and in fact, no practical use was ever made of it until the present administration was able to use it as a powerful instrument of economy.²³

The survey indicates that these were efforts to use a 1926 statute which was obviously not suitable for the uses to which it was applied.²⁴

The substitute for this law, which was repealed, stated the economy powers that were conferred on the Governor. The relevant portion of the Donahey Act reads as follows:

On or before the 10th day of each month, the Department of Finance shall furnish to the Governor statements in such form as he may require showing the condition of each fund and appropriations account to enable the Governor to exercise and maintain effective supervision and control over the expenditures of the State.

If at any time the Governor ascertains that the available revenue receipts and balances for the current fiscal year will in all probability be less than the appropriations for the year he shall issue such orders to the respective department's offices and institutions as will prevent their expenditures and incurred delegations from exceeding the said revenue receipts and balances.²⁵

A further solution of the State's difficulties was available in the power that had been granted to the State Auditor, with

²³ Bevis, *op. cit.*, p. 106.

²⁴ The statute in question reads as follows:

Each department, office and institution of the state government, other than the legislative and judicial departments thereof, shall, before any appropriation to such department can become available for expenditure, prepare and submit to the department of finance an estimate of the amount required for each specific purpose within the appropriation, or item of appropriation, as made by the general assembly, and accounts shall be kept and reports rendered to the department of finance showing the expenditure for each such purpose. The department of finance shall exercise such control over items of appropriation accounts created by the general assembly, with respect to changes and adjustments therein within the general scope of a specific appropriation, as may be committed to it by any act making appropriations, and shall in general exercise such control over the expenditure of appropriations, in addition to that specifically provided for in this chapter, as may be so committed to it. Ohio Gen. Code Ann. (Page, 1926), § 154-35.

²⁵ Ohio Gen. Code Ann. (Page Supp. 1926-1935), § 270-4.

the approval of the Emergency Board, to transfer balances between the various State funds.

The enabling legislation reads as follows:

Whenever a deficit exists in the general revenue fund or any other fund of the State, by reason of which the general operating expenses of the State can not be paid from appropriations made from such fund, an emergency shall be deemed to exist, and in such cases the Auditor of State may, with the approval of the Emergency Board, make temporary transfers to such fund of any surplus moneys in any other fund or funds available for state purposes. Any fund from which moneys are so transferred shall be reimbursed from the first moneys accruing and available for such purpose.²⁶

This type of transfer is best understood when the many independently financed State funds are kept in mind.²⁷ Intra-departmental transfers to be approved by the Emergency Commission are also permitted. In the case of emergency the Commission may have recourse to a fund that the legislature appropriates for that purpose. The funds may be used to supplement regular appropriations as well as for emergency payment needs.²⁸ With its reserve funds, allotment scheme, and transfer privileges, little is missing during the execution stage. The voted budget is evidently considered as only a basis for subsequent revisions.

Arkansas

Arkansas has a practice related to the drastic execution methods described above. This was introduced in 1933 as a result of the serious financial difficulties that led to a default in State bond service in that year. Previous statutory provisions had provided for the usual prohibition on expenditures exceeding appropriations. Other than this there were no specific provisions and it is understood that the expenditures were subject to the rigid specifications of the appropriation laws. Article 3 of the laws of the 49th General Assembly (1933) assigned 20 per cent of the general revenue fund for the payment of war-

²⁶ Ohio Gen. Code Ann. (Page, Supp. 1926-1935), § 249-1.

²⁷ Appropriation bills are itemized in detail. The State did not resort to lump sum voting as a source of executive economy measures.

²⁸ Recognizing, however, that there are many matters of detail difficult for an unwieldy body like the general assembly to deal with, and that exigencies often arise during the intervals between regular sessions, our legislature customarily appropriates certain sums of money to the Emergency Board and the Board of Control, and grants to them authority to allot, from time to time, such portions thereof to the state's agencies as, in their judgment, seems wise. The Board of Control is given the further power of making transfers of appropriations from one classification to another within departments of the state government. Bevis, *op. cit.*, p. 105.

rants and obligations outstanding (sinking fund). The balance of the general revenue fund was pledged to cover expenses of that year as part of a scheme to make the State operate on a cash basis within the limits of its income. Under this law all appropriations for the balance of the biennium were subject to a 20 per cent reduction. This method differs from the others in that a specific cut is made and, furthermore, that no delegation of the duty to an administrative agency is made. Nevertheless a mandatory horizontal cut in all outlays after the voting of appropriations is involved. The State deserves a faint measure of praise for having failed to put its retrenchment policy, with its objectionable horizontal cuts, into permanent legislation. Other elements of this State's execution practices are not appraised but it is evident that they could not have coped under any circumstances with the financial difficulties in which this commonwealth found itself.

It is interesting to note that two recommendations based on the Institute of Public Administration's study of Arkansas were made that might have mitigated the drastic crisis. One suggestion was that the State abolish its system of detailed appropriations and adopt lump sum voting methods.²⁹ The other suggestion involved a system of voluntary revisions of work programs and a procedure whereby the Commissioner of Finance, with the approval of the Governor, could require the State spending agencies to set aside a reserve which could be used only with the approval of the Commissioner.³⁰ Needless to add, the recommendations were not adopted.

Summary and Conclusions

Of the eight states that comprise this group, the execution practices are all outstanding examples of non-commendable varieties. None of the jurisdictions, with the exception of Tennessee, has attempted to gain such advantages as can be derived from lump sum voting. In Tennessee the absence of any specified unit of voting has permitted a vacillating practice in which line budgeting of maintenance appropriations still persists. The transfer provisions permit the executive, in all the commonwealths except Alabama, to reallocate the appropriations within spending agencies. Repeated reference has already been made to the inconsistent attitude maintained in respect to voting units and transfer privileges. The voting and transfer practices show the marked defects inherent in the delegation of legislative power, when better results could have been obtained through lump sum voting. Florida and Ohio may be noted as permitting inter-fund transfers. The evils of the multiple fund system can be mitigated through executive equalization of appro-

²⁹ Institute of Public Administration, *Arkansas Survey*, op. cit., p. 105.

³⁰ *Ibid.*, p. 107.

priations. A helpful tool in the maintenance of fiscal order may be developed from the ability of an executive to use his discretion and by avoiding the conferring of drastic powers. The fact that these two states fall in this group indicates that during the depression the inter-fund transfer powers were of some value.

Four of the states have on their statute books provisions for contingency fund appropriations. The states surely did not vote emergency reserve funds of sufficient magnitude to cover their basically faulty fiscal systems, their erroneous estimates of both income and outgo, and their general unpreparedness for the burdens of the depression. The idea of a reserve fund is laudable but unless the revenues are soundly estimated and adequate, and the size of the fund sufficiently large, it may merely denote empty homage to a concept of carefully planned budgets. Arkansas, Florida, and Tennessee fail to provide for even inadequate reserves. There are, however, elements of greater importance in these States.

Four of the commonwealths have in their statutes provisions that make it mandatory for the executive to reduce appropriations in proportion to available revenue. It is absurd to believe that appropriations are so planned and voted that their designation as "maximum, proportionate and conditional" means that horizontal reductions will mean sound economy. All the appropriations that are affected (many basic injustices and uneconomic practices have resulted from undeserved immunities from flat economy reductions) are ruthlessly cut as a penalty for the failure of the executive and the lawmakers to anticipate the inadequacy of their revenue systems or to interpret correctly indications of future difficulties. It is unfortunate that a few states like South Carolina, Tennessee, and Virginia have had recourse to such means as solutions of their fiscal problems; the other states have given the enabling legislation a tenure that will last until repeal or modification. Fortunately none of these provisions has as yet found its way into the state constitutions.

It is earnestly hoped that changed economic, fiscal, and political conditions will render obsolete the need for these provisions. No state can claim to have a budget system worthy of that designation, if it solves its problems and covers its errors by cutting down expenditures below levels necessary to maintain necessary governmental functions when the economic events fail to bring about the realization of the wild guesses that pass as estimates of revenue yields. No phase of the budgetary practices of any state appears to the writer to be so objectionable and so indicative of backwardness as these mandatory economy methods.

CHAPTER XLVI

PERMISSIVE EXPENDITURE

REVISION STATES

Permanent Permissive Modification Group A

As indicated in the introduction to this part, several classifications within this category are feasible.

This first group of the permissive modification category consists of five states which have adopted, as a permanent feature of their budget systems, important delegations of power to the executive. In Iowa, Maryland, Oregon, Utah, and West Virginia the Governors or officials serving under them may reduce appropriations if revenues prove inadequate. Two of these Commonwealths, Iowa, and West Virginia, prohibit any exercise of discretion and delimit the permissive element by requiring consideration of all appropriations, when reductions are made, as maximum and proportional. In the other three, there is a great opportunity for economic and social orientation through a selective retrenchment policy or for politically motivated abuses of the discretionary authority granted, as the case may be. Two States, Missouri and Oklahoma, have been added to the list because the initiation of any economy program by budget officials requires the assent of the heads of the department affected. Oklahoma tried in vain to receive judicial sanction to qualify in the group. It is interesting to note that three "constitutional budget" states are here listed; however, they and the others have not embedded these policies in their Constitutions.

Iowa

Iowa is one of the Mid-Western states in which the appropriations made by the General Assembly are "maximum and proportional." A procedure is provided whereby twenty days before the beginning of each fiscal quarter the Governor receives from each department the request for its quarterly allotment. If the resources, as estimated in the budget, are not available, the Governor may modify such requests (or allotments) to prevent deficits growing out of overdrafts. A similarity to the mandatory systems is the fact that reductions must be uniform and prorated among all departments.¹ In such action the Governor must have approval of the Executive Council.²

The experts of the Brookings Institution were strongly in favor of placing Iowa in the mandatory revision group. In view of the great influence that this organization exercises in the reform of state governments, the reasoning underlying the suggestion may profitably be quoted at length. The survey notes:

¹ Iowa Acts (1933), c. 4.

² The Executive Council consists of the Governor, Secretary of State, Auditor, State Treasurer, and the Secretary of Agriculture.

A current misconception that nullifies the beneficial results of a budget system is that appropriations provided by the legislative authority may or should be expended to the maximum amount, irrespective of what trends revenues may have taken after the enactment of appropriation measures. It should be remembered that a budget is nothing more than an estimate of the revenues that may be collected; and appropriations should represent nothing more than estimates of expenditures which may be made provided resources become available in the amount estimated. In other words, every appropriation bill should contain a provision to the effect that appropriations contained therein are approximate and maximum and that no expenditures shall be made in excess of resources becoming available during a given fiscal period.

Due to the fact that the legislature meets only once in two years, provision should be made whereby the executive and financial administrative officials may be able to insure a balanced budget at the end of any given fiscal period. In the past there has been no such authority and no restrictions whatever were placed upon spending agencies to keep expenditures within income. In case revenues fell below expectations, the only recourse was an increase in debt obligations in the form of unredeemed warrants, since no restrictions could be imposed upon the incurrence of obligations up to the amount of appropriations provided.

It was apparent, therefore, that laws should be immediately enacted making it mandatory upon the chief executive to submit and maintain a balanced budget, and that he should be provided with proper machinery for the execution of the budget and with sufficient power to restrict expenditures to resources available.³

If the solution could not be found in more basic adjustments of fiscal policy, it would appear advisable to suggest selective economy methods in preference to those proposed above.

Pre-depression legislation in Iowa dealt at length with the less drastic aspects of execution practices. Inter-departmental transfers may be made with the approval of the Governor and Comptroller.⁴ This provision is significant because of the fact that the State has been voting lump sum appropriations.⁵ No expenditures

³ Brookings Institution, *Iowa Survey*, *op. cit.*, p. 407.

⁴ The executive council, with the approval of the director of the budget, is authorized where the appropriation of any department, institution or agency is insufficient to properly meet the legitimate expense of such department, institution or agency of the state, to transfer from any other department, institution or agency of the state having an appropriation in excess of its necessity, sufficient funds to meet that deficiency. Iowa Acts (1927), c. 275, § 87.

⁵ Under the present system there is no classification for expenditures. Appropriation is made in one amount to each department and the classified expenditures must be approved by the Comptroller and the Governor before that can be made. Letter from C. B. Murtagh, State Comptroller, Des Moines, under date of Dec. 4, 1934.

in excess of the amounts appropriated may be made unless funds are received through transfer from some other department or from some other function within the department. In the event that the need for new emergency outlays arises, a contingency fund, which is under the control of the executive council is available. In its liberal transfer privileges the State had provided for executive direction in limiting deficiency needs. The horizontal economy measures adopted indicate the insufficiency, or possibly a mistrust, of executive discretion as a solution of the fiscal problem.

Maryland

Maryland is one of the states in this permissive revision category operating with a Constitutional basis for their budgetary systems. The State Board of Public Works, consisting of the Governor, the Treasurer, and the Comptroller, has control over State expenditures. The Board may reduce expenditures if revenues do not appear to be adequate.⁶

Appropriations for the legislative and judiciary departments, and for the payment of interest and principal on the State debt, are exempted from any revision by the Board. Each State agency has the power to modify its outlays of its own accord. The authority granted does not go beyond transfers within voting units. Each unit may submit an amended schedule of appropriations to the Governor, which takes effect upon his approval.⁷

The Governor must report all such amendments of appropriation schedules to the General Assembly at its next session. Appropriations are voted in detail as required by constitutional provision. The Governor may make transfers from one item to another. His power does not conflict with the powers that have been granted to the State Board of Public Works. The State has apparently no definite procedure in respect to emergency expenditures, either ignoring or absorbing minor items, or relying upon the special session device to finance major outlays. Any extra-legal methods are seldom reported. Perhaps overdrafts are tolerated.

⁶ The Governor has the authority to amend Budgets by transferring funds from one item to another, but the total of course cannot be exceeded. The State Board of Public Works consists of the Governor, Treasurer, and the Comptroller, has control over State expenditures and can reduce the same if revenues do not justify Budget appropriations. The Board of Public Works can promulgate rules and regulations for Budget control. Letter from Walter N. Kirkman, State Purchasing Agent, Annapolis, under date of Nov. 22, 1934.

⁷ Transfer powers are embodied in the statutes as can be noted in the following summary of laws in effect in 1929:

The Governor is given authority to approve changes requested by any department or other State expending agency within appropriations made for such department or agency. The Governor may also make changes in the appropriations for his own department. In every case the Governor is required to transmit to the Comptroller all such amended schedules of appropriations. Md. Laws (1918), c. 206; *id.* (1927), c. 654, *Compilation & Digest of Executive Budget Laws, op. cit.*⁵

Oregon

Oregon belongs in the group of states that give the Governor considerable discretionary power with respect to cutting expenditures. The appropriation bills, which include funds voted in lump sums according to standard functional classifications, form the basis for allotment requisitions which the departments must submit in advance of proposed expenditures. These may be either monthly, quarterly, semi-annual or annual. Whenever the condition of the Treasury reveals the possibility of a deficit the Governor may reduce appropriations of the various departments to conform to expected revenues.⁸ It is specifically stated that the Budget Director must visit and keep in contact with all agencies, examine expenditures, and make recommendations to the Governor and to the Joint Legislative Ways and Means Committee regarding possible expenditure reductions. The Committee has no power over any permissive post-voting retrenchment measures. It is presumed, however, that it will use any knowledge it acquires in connection with its deliberations on the next budget program. Interdepartmental and inter-classification transfers within departments are not permitted. The Treasurer, however, may shift surpluses from special funds to the general fund. These transfers, as may be noted in several other instances, merely represent loans. They constitute a first lien on the revenues of the general fund. Furthermore, the transfer may take place only with the consent of the officer or agency controlling the funds from which the moneys are obtained. No special procedure with respect to financing unanticipated needs has come to the writer's attention.

Utah

In Utah the Governor may revise the estimates that are submitted as the basis for quarterly allotments. His powers of review and revision permit him, through the Director of the Budget, to require departments to reduce expenditures whenever the condition of the Treasury or more specifically, the relief of the needy requires such action.⁹ The funds thus obtained may be impounded for the relief of the destitute. This is an interesting attempt to obtain sympathy and justification for a fiscal measure by assigning the savings to unemployment relief. In denying to some spending agencies funds that are subsequently applied to relief, there is an element of selective economy present. The power of the Governor is one which allows actual reductions in expenditures below voted appropriations. The State has had, as early as 1923, provisions that have permitted the Governor to withhold appropriations temporarily if the condition of the Treasury warrants such an act.¹⁰ This power would not permit more than a temporary modification of an allotment scheme, to adjust for seasonal variations in the

⁸ Ore. Laws (1935), c. 94.

⁹ Utah Laws (1933), c. 78, 88.

¹⁰ Utah Laws (1923), c. 85, § 166-68.

revenue flow. The provision is, however, an interesting and perhaps rare pre-depression forerunner of later developments.

The Governor's transfer powers are also very great. Not only may he transfer appropriations within departments, but between them as well. He may even eliminate the entire appropriation for one agency and set it up for the credit of another. This represents an example of the widest powers that have been granted to Governors. The powers are, furthermore, endowed with a practicable voting unit background. The legislature votes appropriations in lump sums according to departmental units. The itemization and classification required by law do not have more than administrative influence. The State is strict in its effort to prevent deficits but does not fail to provide for emergencies. Outlays in excess of appropriations are forbidden except in emergencies, in which case unanimous consent of the Board of Governors is necessary.

West Virginia

West Virginia is another State that allows the Governor to modify appropriations according to revenue yields. As a feature of its quarterly allotment scheme the Board of Public Works must examine quarterly estimates in order to determine whether they will exhaust appropriations before the end of the biennium. When the Board finds that appropriations cannot be expended without creating a deficit, it may order equal and pro rata reductions sufficient to attain a balance. The system has been described as follows:

The total appropriations are available for expenditure by the spending unit providing the revenue equals or exceeds the total appropriations. If the revenue is not sufficient to maintain the total appropriation, then a system of reduction is provided for on the basis of reduction from five to twenty-five per cent. In case of a reduction in revenue which would not be equal to the total appropriations, a plan of reduction is provided that classifies the departments into groups, as follows: Class I—The agencies collecting revenue and administering the fiscal operations of government, including the offices and departments of the Tax Commissioner, Auditor, Treasurer and Sinking Fund Commissioner. Class II—Agencies vested with the supervision, control and direction of executive policy and law enforcement, including the Governor's office, the Attorney General's office and the Department of Public Safety. Class III—State Institutions, educational, charitable and corrective. Class IV—Other departments and services of the State Government. Class V—Transfers from the general fund.¹¹

The State is unique in having provided a statutory basis for its retrenchment policy; this classification serves as a guide for the varying percentage cuts in expenditures. The percentage limita-

¹¹ *West Virginia Budget System, op. cit.* pp. 1-2.

tions also are rare, and were noted in only one state of the "mandatory" group.

The Constitution specifies that budget bills must be "clearly itemized and classified." Although broad retrenchment powers have been given to the Board, it has not been given the authority to make inter-departmental transfers. However, it may authorize such transfers within each spending unit. Upon the petition of the departments, transfers between items of any unit appropriation may be made.

The State has methods of providing for expenditures in excess of appropriations. In the case of functions financed by dedicated funds there is a method whereby receipts collected in excess of the expenditure authorized may be expended after favorable action upon a petition submitted to the Board of Public Works. In connection with this method the "excess votes" of the Irish Free State's system will be recalled. In view of the fact that highway funds, for example, have been the target for much raiding, there must have been an excess of revenues accumulated during times when the general funds were being depleted. Functions financed by general fund revenues may be supplemented by the Governor only from an Emergency Fund, which is appropriated to the Governor to be expended according to his direction.

It can be seen that these powers to deal with emergencies are not as wide as those found in Utah. The State's officials may appropriate only out of existing resources, often an empty power when the need is the greatest. If, however, the Emergency Fund is large enough it can be a useful shock absorber.

Oklahoma

Oklahoma is of interest because of the fact that it attempted to fit itself into this permissive modification group, but found such a step difficult. The writer has received the following comment from a fiscal officer:

Perhaps the latest development in the budget procedure is the attempt of the legislature to require quarterly statements to be made to the Governor by all State institutions and departments, giving the authority to strike out or reduce items therein in the light of the existing financial condition of the state. This provision was incorporated in the State departmental and institutional appropriation bills, and the Attorney General has held that such provision was unconstitutional for the reason that it was an attempt to legislate in an appropriation measure. Consequently, quarterly reports are not rendered by various State departments. However, State institutions continue to do so as a matter of policy, for they are almost all under the direct control of the Governor.¹²

¹² Letter from H. L. McCracken, Chairman, Oklahoma Tax Commission, Oklahoma City, under date of Feb. 14, 1936.

In actual practice the Governor, disregarding original appropriations, issues certificates only if he has sufficient money in the Treasury. In this State, as in Missouri, voluntary acquiescence by the heads of the spending departments, who are under control of the Governor, forms the basis for execution phase revisions.

Study of the Brookings Institution report indicates that its writers favored an amendment of the Budget Law so as to avoid any nullification of the economy acts through an interpretation of the "anti-rider" clause in the State's Constitution.¹³

It is disappointing that the changes that were recommended involved the "maximum, conditional and proportional" appropriations. It is under no circumstances desirable that horizontal cuts be made in the entire field of state outlays and that an irrevocable legislative act, covering two years' outlays, be passed. It is misleading to state, as does the Brookings report of its mandatory appropriation revision scheme, that its purpose is "to make the appropriations in full in the amounts named, but only in the event that the estimated budget resources of each fiscal year of the biennium for which such appropriations are made, are sufficient to finance all of the appropriations in full. . . ."¹⁴ The purpose of such a provision would be to disregard legislative expressions regarding the sums to be spent and to require the Executive to make cash resources the sole criterion for the sums to be made available for the functions that the legislature had authorized. It is hoped that the State legislature has not adopted this suggestion of the experts' recommendations.

The Governor has no authority, with respect to fund transfers, to modify the appropriation bills as passed by the legislature. These bills are voted in great detail, following the itemized budget classification. There are no provisions for inter- or intra-departmental transfers. In case of emergencies spending departments may, with the prior written consent of the Governor, exceed their appropriations. The elimination of this latter provision was recommended by the Brookings experts, since it was viewed as a source of overdrafts and deficiency items.

Missouri

In Missouri another "constitutional budget" state, budget officials have voluntarily acquiesced to a system which is in effect in some of the states already mentioned. The statutes normally provide that the departments must submit requests for quarterly allotments. The Governor may approve these allotments as he sees fit and may revise the distribution of funds within the various units. There are several departments not subject to the Governor's control and for these he may approve the expenditures only in total. He is required by law to revise allotments at the close of each quarter. There is no power that goes beyond an

¹³ The Survey report stated that the outlawed clauses were repeated in the appropriation acts for the 1935-37 biennium. Brookings Institution, *Oklahoma Survey*, op. cit., p. 240.

¹⁴ *Ibid.*

allocation of voted outlays unless a provision that the Governor must postpone them whenever necessary in order to keep expenditures within estimated revenues is liberally interpreted.¹⁵

The writer has been told of an extra-legal practice that consists of withholding appropriations until sufficient revenues are available. This is made possible by agreement with heads of the spending departments at the time of signing of the appropriation bills.¹⁶ Perhaps the threat of an application of the above-mentioned clause may have been involved. There are no provisions allowing transfers of items between or within departments, so that the details of the voted units are followed unless reduced as outlined above. For emergencies each department is directed to set aside 3 per cent of its appropriation as a reserve fund for contingent use. Reserves of 3 per cent could obviously not have coped with the serious problems posed by increasing expenditure needs and the falling revenues that appeared with such magnitude during the depression.

Summary

It makes a vast difference whether Governors are granted permissive or mandatory authority to cut expenditures. The real significance may be noted when the pro rata element, which was evident in all the states in the mandatory group (and twice in the permissive group), is eliminated from the permissive practices. The exercise of planning and discretion, both basic attributes of flexibility and of adjustability, is possible when the mandatory element is absent. It is unfortunate that states must resort to extra-legislative cuts and that they must base such cuts on their economic plight, their inadequate revenue systems, their limited borrowing powers, their misguided depression policies, and above all, on their defective budget systems in general and their notoriously inadequate estimating ability in particular. But if they

¹⁵ The budget law authorizes the Governor to exercise control over the execution of the budget through a system of quarterly allotments. Requested allotments for the first year of the biennium, in such form and in such detail as the budget director may require, must be submitted by each department within two weeks after the Governor has signed the appropriation bills. The Governor may approve these allotments in such detail as he may determine except that allotments of departments not directly under his control are subject to approval only as to the totals for each quarter. The Governor may revise the allotments at the end of any quarter and is directed to reduce the same if necessary to keep expenditures within estimated revenues. Each department is required to set aside 3 per cent of its appropriation as a reserve fund to be subject to expenditure only with the approval of the Governor. *The Missouri Budget System, op. cit.*, p. 3.

¹⁶ The Governor also exercises control over expenditures through the extra-legal practice of withholding appropriations until he is certain revenue will be sufficient to pay the same. This practice has been quite common and is made possible by agreements between the Governor and the heads of departments at the time he signs the appropriation bills. *Ibid.*, p. 4.

are fortunate in having some enlightened fiscal leadership the anti-social phenomena that must accompany the mandatory practices may be avoided.

For the two "pro rata" states in the permissive group, the magnitude of the disadvantages alone, not their variety, can be limited. It would be an interesting contribution to the study of executive budgeting to complete a study of the economy policies that similarly situated mandatory and permissive revision states pursued. Executives have been known to be lax with many other permissive privileges and powers that they have been granted in the interest of fiscal efficiency. It is probable that they refrained from taking advantage of the selective economy opportunities at their disposal.

Only three of these seven states practice lump sum voting. Of these three, namely Iowa, Oregon, and Utah, only the first and last mentioned combine this sensible approach with liberal transfer powers. Certainly all the commonwealths that have had to resort to reducing voted appropriations should have permitted inter- as well as intra-departmental transfers, as do Iowa and Utah. Maryland alone is inconsistent enough to combine wide transfer privileges with detailed voting. West Virginia and the two voluntary revision states in this category allow no transfers, not even those within spending agencies. Oregon is found to allow shifts within the voting units, but does not allow intra-departmental transfers.

The fact that all these states have concentrated on reducing outlays serves to minimize the ability of their methods to cope with unpredictable situations for which no specific legislative provision has been made. Two of the jurisdictions make no provision whatsoever for such conditions. At the other extreme are two states, Oklahoma and Utah, which have specified the circumstances under which overdrafts are authorized. Another pair of states, Iowa and West Virginia, allow the use of certain surpluses, in addition to providing contingency or emergency funds. Missouri belongs in the small group that combines a reserve policy with the allotment scheme. It is not necessary to repeat the conclusions regarding the advantages of the various methods. Some of these states show that they recognize the inevitability of deficiency needs. The extent to which they act in response to this nominal recognition remains problematical.

The next group of states differs only in respect to the apparent dissociation of the exercise of retrenchment powers from the status of revenue collections. The unavailability of resources is not an exclusive prerequisite for the reduction of expenditures in the jurisdictions whose execution practices are now to be considered.

Permanent Permissive Modification Group B:

In this group are five states, namely Idaho, Illinois, Kentucky, New Jersey, and Wyoming. In many respects their segregation from the group just analyzed is based on arbitrary criteria. The

fact remains that the permissive economy powers in these States do not appear to be legally linked to revenue insufficiency. The reasons for maintaining the distinction will become apparent during the progress of the study.

Idaho

In Idaho the State Board of Examiners, consisting of the Governor as Chairman, Secretary of State, Attorney General, and the State Auditor, is authorized to reduce any appropriation. Any reduction follows only after investigation and recommendation by the Budget Director. The head of any department affected has the right to appear before the Board and present his case in the event that a reduction is ordered. The hearings are required unless the department head files a written consent. The extent of itemization in the appropriation bill, according to the budgetary classification¹⁷ as planned originally by the legislators, would have left little scope for voluntary action. Transfers are allowed under certain circumstances, a practice to be considered in relation to the fact that the State has more recently sanctioned the voting of the appropriations in lump sums.¹⁸ However, no appropriations may be transferred from one class of activity to another without consent of the Board to an application made by the head of the affected department. There are provisions prohibiting the transfer of payments appropriated for personal services to other activities. This is linked to a prohibition against any salary revision such as has been previously noted in reference to acts of the Legislature.¹⁹ Inter-departmental transfers are not permitted. The existence of contingency appropriations has not been confirmed.

Illinois

In Illinois, the Department of Finance may disapprove expenditures even though the appropriations have been made. The exercise of this power, coördinated with the State's allotment scheme, means that postponement or omission of voted outlays is possible.

The budget bills are voted in great detail, and only a few lump sum appropriations are made. The statutes make no mention of transfer powers, and it may be assumed that none are permitted. Without lump sum voting units and transfer privileges, expenditure control is considerably lessened. In dealing with emergencies

¹⁷The Governor shall submit . . . , at the same time he submits his budget, copies of a tentative bill for all proposed appropriations of the budget, clearly itemized and properly classified . . . , which shall be known as the budget bill. Idaho, Comp. Stat. (1929), § 359.

¹⁸A study by the Legislative Reference Library of New York State indicates that prior to the depression the appropriation bill, as passed by the legislature and signed by the Governor, was in lump sums for each State department or spending agency.

¹⁹The compensation and salaries of all State officials, deputies and employees, appropriated by Section 1 of this act, shall be in full for services to be rendered . . . during the period for which such appropriations are made. Idaho Laws (1927), c. 48 § 2.

the statutes mention a contingency fund which may be expended for "purposes either not covered in any other item or for which the amount appropriated in such other item is or becomes insufficient."²⁰ Section 24 of the same law provides for the maintenance of reserves to finance "expenditures for public purposes that were unforeseen by the General Assembly."

Kentucky

Kentucky's new system embodies a liberal variation of the practice already noted. The Board of Finance, which controls the execution and modification of the voted program, allots funds to each spending agency on a semi-annual share basis. In doing so the Board is permitted to make the necessary changes in order to meet emergencies, correct errors, and avoid cash deficiencies. In discussing the control of the execution of the budget plan the recently completed survey of the State's financial system notes:

It is accomplished through machinery which insures that expenditures are in conformance with the budget plan; and also authorizations to spend will be scaled downward in the event that revenues are not collected in the amounts and by the contemplated estimates on which the budget is based.²¹

The Director of the Division of Accounts and Control of the State's Department of Finance has described the recently modified practices in the following terms:

We have, during the current fiscal year, under the direction of the Commissioner of Finance, been making quarterly allotments to budget units based upon legislative appropriations. For the first quarter, practically all appropriations were cut 10% on quarter allotments. This has been carried through on three quarter allotments. However, some of the 10% cuts have been restored. The Commissioner of Finance has also exercised in a few instances the authority granted him to transfer from one appropriation to another within departments where the facts and circumstances seem to justify such requests. The Division of the Budget in making quarter allotments absolutely refuses to permit any Department or Division thereof to exceed appropriation allowances, which when carried through the remaining quarter, will balance the budget and make it impossible for any budget department to exceed legislative appropriations, thus balancing for the first time in many years the State Budget.²²

Transfers may be made within budget units, with the approval, it of the Board of Finance. The law specifies allotment by unit. Detail than

²⁰ Sec. 23, c. 127B, State Finance Code, 1
Executive Budget Laws, op. cit.

²¹ *Handbook of Financial Administration*

²² Letter from Frank D. Peterson, Fran

line budgeting is incompatible with the spirit of the new laws. The Board, however, may not approve inter-unit transfers. Kentucky's system, only recently put into effect, has not as yet been tested to the full extent. Furthermore, a radical reorientation of the tax program that was simultaneously instituted with its budget reform may ameliorate the underlying fiscal conditions which formerly required frequent modification of the voted program.

The discussion of the execution phase practices of the states in the "Permanent Permissive Modification Group B" is continued in the next chapter.

CHAPTER XLVII

PERMISSIVE EXPENDITURE REVISION STATES (CONTINUED)

Permissive Modification Group B (Continued)

New Jersey

New Jersey is one of the few important Eastern states that have found it necessary to allow the Executive to make radical revisions in the adopted budget plan. Only one other annual budget state has found it necessary to shift economy efforts to the execution phase. Apparently the crisis that the New Jersey State finances encountered early in the depression offered no other solution. In 1932 the budget acts contained the following provision:

In any case wherein it appears to the satisfaction of the Governor that any expenditure proposed to be made under any appropriation by any spending agency is not in the best interests of the State, as in the case of extravagance, waste or mismanagement, then he shall be and hereby is authorized and empowered to prohibit and enjoin any such expenditure or any future expenditure under said appropriation and to prescribe the terms on which the same shall be made. . .¹

These emergency powers were limited to one year. The section, with a few unimportant changes, was embodied in the 1933 amendment to the basic budget law of the State.²

The comments of Professor Cline are of interest:

As the law now stands, its meaning is not clear and the power of the Governor is not as great as might appear. Can he prevent an expenditure when he thinks it would be in the best interests of the State, or only when it is a case of extravagance, waste or mismanagement? What can he do if the Comptroller, who is elected by the legislature, should disregard his executive order? Even as it stood before amendment, this section was inadequate in that it gave the Governor no authority to stop most State expenditures. The Attorney-General has ruled that the reference to the State Purchase Commissioner makes the section refer exclusively to the purchase of goods and chattels. The Princeton report urged that this section be strengthened by specifically authorizing the Governor to stop any type of expenditure by executive order. As the section was apparently weakened instead, it will be through the quarterly allotment system rather than

¹ N. J. Laws (1932), c. 189.

² Cline, *op. cit.*, p. 30.

the budget law that the Governor will have the most power over the execution of the budget.³

This discussion reveals not only the uncertainties underlying New Jersey's provisions, but also the limited value of analyzing only the legal provisions in the other states. Political and economic circumstances must undoubtedly influence the possibility of translating legal powers into action. In New Jersey's case, there seems to be some doubt whether revenue insufficiency could be interpreted as giving some of the appropriations an extravagant or wasteful character. There is no doubt, however, that the Governor has some powers that the executives in neighboring Pennsylvania and New York do not possess and, fortunately, do not require.

Professor Cline has described the allotment scheme upon which the modification privileges rest, as follows:

The Commissioner of Finance is to execute the provisions of the finance law under the authority and control of the Governor. As stated in the act, the intent is to provide control by the Governor over state expenditures by the adoption of a system of allotments. By June 1st in each year, each spending agency which has received an appropriation is required to file with the Commissioner of Finance a work program showing for each quarter how it proposes to spend its appropriation. Its financial program shall be made in such form and in as much detail as the Commissioner shall request. In reviewing the requested allotments, the Commissioner is authorized to revise them before giving his approval. No part of an appropriation may be spent until an allotment has been approved. A copy of the allotment, as approved, is sent to the spending agency and another is transmitted to the State Comptroller. In the payment of bills, the Comptroller is required by the law to allow expenditures from the spending agency's appropriation on the basis of such allotment and not otherwise.

In case a spending agency is dissatisfied with the action taken by the Commissioner of Finance, upon its requested allotment, it may appeal to the Governor, whose decision is final. Such appeal is permitted to a spending agency at the beginning of each quarterly period. The act requires that the allotment requests for each of the four periods shall be submitted on June 1st, and that the work program for the entire year shall be acted upon by the Commissioner of Finance. The spending agencies are permitted to submit a revised work program for the approval of the Commissioner at the beginning of any quarter and with his consent a revised allotment is sent to the Comptroller. The act does not authorize the Commissioner on his own initiative to revise an allotment that he has once approved.⁴

³ *Ibid.*

⁴ *Ibid.*, p. 20.

This plan is also the basis for the reserve policy to be described below. In discussing the allotment scheme Professor Cline has brought out further some points that bear directly upon the problems under study.

If the Commissioner approves all allotments for each of the four quarters at the beginning of the year, as the law seems to intend, the lack of power to revise an approved allotment on his own initiative is an important weakness. One of the essential purposes of the quarterly allotment plan is to provide a method of curtailing expenditures made necessary or desirable by a change in conditions after the legislature has passed the appropriation act. For example, an unforeseen decline in revenues may necessitate a reduction in expenditures below the appropriations to avert a deficit. Likewise changes might need to be made after the Commissioner of Finance has approved at the beginning of the year all of the allotments for the year. Furthermore, circumstances may arise in the course of the year which would make it unwise for a spending agency to use all of its appropriation, and in such cases it is the duty of the Commissioner of Finance to prevent it from spending more than is necessary. Therefore, the finance act should be amended specifically to permit the Commissioner to approve allotments for one quarter at a time.⁵

With respect to the unit of voting, the depression period has brought no changes. The appropriation acts, with the exception of those for the Highway Department, are voted in great detail, a practice that has led to criticism from many quarters.⁶

In the Highway Department the outlays are voted under five major headings. There appears to be no reason why the practice of lump sum appropriating could not be introduced without difficulty since there is no specific unit of voting dictated by the statutes.

The following summary of New Jersey's early transfer provisions may be used to describe those now in force. The 1931 basic budget law revision introduced no significant changes.

In order that the same degree of flexibility in appropriations may be had, any department or other State agency receiving an appropriation by any future act of the Legislature may apply to the State House Commission for leave to transfer a part of any item granted to such department or agency to any other item in such appropriation. Such application shall only be made during the current year for which the appropriation was made. . . . No sum appropriated for any permanent improvement shall be used for maintenance or for any other purpose; and provided, further,

⁵ *Ibid.*

⁶ Institute of Public Administration, *New Jersey Survey, op. cit.*, p. 57.

that wherever a transfer is made the item, or any part thereof, from which the transfer has been made shall not be reimbursed from the emergency fund.⁷

The State House Commission, a body still in control, consists of the Governor, State Treasurer, Comptroller, and two members of the Appropriations Committee of the Legislature. No requests for transfers are granted until the State Budget Commissioner makes his recommendations.

Professor Cline's comments on the practical operation of the transfer powers and on the recent changes in voting units are enlightening. He notes:

Each year numerous requests for intra-departmental transfers are granted, but almost no inter-departmental transfers of appropriations are made. Since a method of maintaining control over spending has been provided by the work programs and quarterly allotments, there is no longer any need for such a high degree of itemization in the appropriation acts. The new budget law requires that the appropriations for the highway department shall be made in lump sums under a few general heads, such as new construction, maintenance of State highways, etc. If the lump sum type of appropriation were extended to the other departments, as could safely be done now under the new system of financial control, there would be little necessity for requests to the State House Commission for transfers of appropriations. The departments would need only to submit revised work programs and requests for changes in allotments for the approval of the Commissioner of Finance in order to make the most of the necessary adjustments in expenditures. In fact, a highly itemized appropriation act is inconsistent with a flexible administration of the quarterly allotment plan. If the legislature continues to use this type of appropriation act and to require that all transfers shall be made by the State House Commission, the latter should pay especial heed to the recommendations of the Commissioner of Finance in this regard.⁸

This is but one of many indications that the states cannot expect their various plans of strict control of expenditure transfers and allotments to function, unless lump sum voting allows a reasonable area for executive discretion.

One other phase of New Jersey's much discussed practices remains to be considered. This deals with reserve and contingency fund provisions. For a considerable period, prior to the depression, the State had been voting appropriations to a Contingency Fund. The State House Commission, mentioned above, has been

⁷ N. J. Comp. Stat. (1911-1924), § **192-21, p. 3384. *Compilation and Digest of Executive Budget Laws, op. cit.*

⁸ Cline, *op. cit.*, pp. 23-24.

the agency authorized to make allotments out of the emergency fund, as the annual reserve appropriation is commonly called. This appears to have been a source of many abuses as it became a part of the State's complicated multiple fund structure. The Institute of Public Administration experts felt that the fund could be almost entirely abolished (they suggested a \$50,000 annual appropriation) if the fund situation was cleared up. They recommended the adoption of an allotment scheme with a 5 per cent reserve against contingencies to be provided from the proposed lump sum departmental appropriations.

In the 1931 basic budget law revision the State adopted a quarterly allotment scheme and provided for the reserves. For comment on the allotment reserve policy it will be well to draw again from Professor Cline's study. (It is the most exhaustive analysis of the fiscal implications of state execution provisions that has come to the writer's attention; similar analysis orientated to the particular political and legal, as well as economic and financial, backgrounds of other jurisdictions would greatly clarify the complicated situations left by the depression.) He notes:

In authorizing the Commissioner to establish reserves, the finance law provides a method under strict executive control of meeting emergencies from regular appropriations. This should eliminate the extensive use of deficiency appropriations and the emergency fund, and the abuses they have encouraged in the past. The plan of setting up departmental reserves for emergencies also offers a method whereby the Commissioner of Finance can compel savings by preventing the expenditure of the entire amount of an appropriation when this is unnecessary. Ordinarily, if a spending agency finds that it has more money than is really needed, it endeavors to spend the full amount to prevent the lapsing of any unspent balances. Consequently, some of its expenditures may be entirely unwarranted. In New Jersey, as elsewhere, departmental heads are afraid that if they do not spend all their funds, this will be taken as proof that their appropriations should be reduced. In addition, there are always ways to spend money, which from the point of view of the individual department would be desirable and even necessary, but which might not be sound economy under the circumstances. The Commissioner of Finance is in a position to take a broader and more impartial view because he must consider the State's finances as a whole. By requiring the establishment of substantial reserves and allowing the money thus set aside to be spent only for actual emergencies and really necessary purposes, he can compel a considerable amount of saving through the lapsing of unspent reserves. Naturally there will be great pressure from the spending agencies to be allowed to spend the full amount of their appropriations, regardless of whether the money in reserves is needed for emergencies. If he makes

energetic use of the reserve plan to compel savings, there will be loud complaints that he is usurping legislative power in not permitting the expenditure of all the money appropriated. It is easy for a departmental head to take the attitude that an appropriation is a mandate from the legislature to spend the full amount, and not merely as much thereof as may be necessary and economical.

There is a danger that the legislature will grant sufficiently larger appropriations to compensate for the reserves required, particularly if the latter are used to compel additional savings. This is especially likely to happen with the appropriations made from dedicated funds. The fact that approximately three-fourths of the total State expenditures are made from dedicated funds may restrict the usefulness of the reserve plan in another way. An unspent balance from an appropriation made from a dedicated revenue cannot lapse to the general fund, but must be held in a segregated fund for future use by the particular agency to which the money has been allocated.*

It is needless to amplify this statement in order to point out the underlying comprehensiveness and unity of the budget system, as well as the properly guided fiscal policy, which has facilitated provision for reserves.

It should appear that the important reforms that have been made in New Jersey exhaust the budgetary provisions that might assist the State in its difficulties. The fact that the Commonwealth has continued to suffer fiscal crises since 1933 should serve to indicate the relative unimportance of legal provisions when administrative and economic conditions are not favorable. In pointing out only one administrative factor that will determine the practical value of the provisions outlined above, the relevant remarks of Professor Cline will again be quoted.

The finance law is commendable for the extensive power it gives the chief executive in the control of State expenditures. The major criticism of the law is that it does not provide the Commissioner of Finance with adequate facilities for making the most intelligent and effective use of this power. He has ample authority under the law to compel the introduction of economies and the elimination of waste, but to be most successful he should be able to show where and how it can be done. Normally the spending agencies will not be anxious to volunteer information of this character. If the Commissioner is active and alert, he will discover wasteful practices and ways to economize, but for the most part, he must ferret out the facts himself. If he does not build up a separate staff, under the present law he must rely upon the personnel of independent departments to provide and put into usable form the data essential for passing intelligent judgment upon

* *Ibid.*, pp. 21-22.

the quarterly allotment requests. The departments have had long experience in the game of obtaining funds. Any one familiar with the various devices and subterfuges that are sometimes used knows that a finance commissioner must be well armed with pertinent and impartial facts to avoid being misled.¹⁰

Previous studies of the State's financial system made by Princeton University and the Institute of Public Administration have recommended the creation of a new department of fiscal control and the improvement of the State's accounting system. There is a complete concurrence of opinion that for the permanent effective control of expenditures and competent guidance of the State's revenue policy, the mere adoption of various execution powers is in itself insufficient.

Wyoming

Finally, in this group, Wyoming remains to be considered. The Governor may eliminate or alter estimate expenditures voted according to the detailed standard budget classification. He may not increase the total amount of appropriations. Percentage cuts or reductions of individual amounts are sanctioned. Transfers may be made within the departments with the approval of the Board of Supplies and the Governor when appropriations are not voted with a "for this purpose only" clause. No information has come to the writer's attention regarding any action by the State to decrease deficiency items and to cope with emergency needs.

Summary

In these five jurisdictions budgetary legislation has some provision enabling the executive to omit and decrease items in the state's voted outlay program. These states have been segregated from those in the first category in the permissive group because of the apparent absence of any link to "maximum proportional and conditional" philosophy sponsored by inadequate revenues, which permeated the practices of the mandatory revision group. The two important states here listed, Illinois and New Jersey, are well known for their tax policy controversies and their political strife; it is not surprising that they have been forced into the group that cannot allow a voted program to survive without some revision. As was stated in regard to New Jersey, the provisions are symptomatic of inherent defects in the State's fiscal system.

The practices of these states in respect to voting units, transfers, and emergency financing are not outstanding. Only Idaho and New Jersey (for its highway outlays) prescribe lump sum appropriations. Illinois prohibits all transfers, while the others permit intra-departmental transfers. Wyoming allows intra-unit transfers by executive action unless the specific purpose of an appropria-

¹⁰ *Ibid.*, p. 25.

tion is designated. Only Kentucky has any specific mention of overdrafts. The statutes of both Illinois and New Jersey provide for contingency funds.

Permissive Modification Group C

The three states whose execution practices are next discussed, namely Arizona, Maine, and Wisconsin, are segregated only because they have refrained from making the revision powers a part of their permanent budgetary legislation.

Arizona

Arizona normally operates with a quarterly allotment plan. The Auditor and the Governor must give their joint approval to the expenditures. Their power normally does not extend beyond an apportionment of an appropriation over the different periods of the biennium. During 1933 when fiscal conditions were at their worst, and when the State Legislature voted an "economy" budget, the allotment procedure was used to endow the Governor with permissive retrenchment powers. These, operative during the biennium, permitted the Executive to cut appropriations as much as 20 per cent.¹¹ No specific link to revenue yields appears to have been planned in connection with this delegation of power.

Transfers are prohibited unless specifically authorized in the appropriation bill.¹² In the event of a need for new or increased funds, the provisions have been made for setting aside any balances in the general fund for emergency use. This predicates a surplus that is not likely to exist when emergency needs arise and is virtually useless as a device to discourage deficiency items.

Maine

In 1931 Maine adopted a new budgetary law that did not allow for any post-adoption economies or modifications. There were, however, a number of provisions that must have served the State in its period of fiscal stress.

The important feature of the new execution plan is a work program and allotment scheme which is designed to eliminate deficiencies caused by uneconomic spending in the early portions of the fiscal year.¹³ The plan is not too rigid and provides mechan-

¹¹ N. Y. Times, April 26, 1933.

¹² No information regarding the unit of voting has been made available.

¹³ Not later than June 1st of each year the Governor shall require the head of each department and agency of the State Government to submit to the Department of Finance a work program for the ensuing fiscal year, such program shall include all appropriations made available to said department or agency for its operation and maintenance and for the acquisition of property, and it shall show the requested allotments of said appropriations by quarters for the entire fiscal year. The Governor and Council, with the assistance of the State Budget Officer, shall review the requested allotments with respect to the work program of each department or agency and shall, if they deem it necessary, revise, alter,

isms whereby changes in previously fixed allotments can be made. With respect to changes the provisions of the law are as follows:

The head of any department or agency of the State Government, whenever he shall deem it necessary, by reason of changed conditions, may revise the work program of his department or agency at the beginning of any quarter during the fiscal year, and submit such revised program to the department of finance with his request for a revision of the allotments of the remaining quarters of that fiscal year. If, upon such re-examination of the work program, the State Budget Officer, with the approval of the Governor and Council, shall decide to grant the request for the revision of the allotments, the same procedure, so far as it relates to review, approval and control, shall be followed as in the making of the original allotments.¹⁴

In 1933 the State found it necessary to grant the Governor authority to cut voted outlays, particularly those for salaries, for one year. It is interesting to note that the so-called "protected" salaries were voluntarily cut.¹⁵ Maine did not vote a permanent permissive "maximum and proportionate" clause.

The new budget law (Sec. 7) specifies the form of the appropriation bill. Undoubtedly the opinions of the experts who had previously studied the State's financial administration had some influence on this provision, which may serve as a model for other states. The statute reads:

The appropriation bill shall be drawn in such form as to authorize only lump sum appropriations to meet the expenditure needs of the various departments and agencies of the State Government for each fiscal year of the biennium. For the operation and maintenance expenses of each department or agency, there shall be a single appropriation which shall be allotted before becoming available for expenditure as provided for in a subsequent section of this act. Appropriations for the acquisition of property shall be in such detail under each department or agency as the Governor shall determine; provided, however, that such appropriation shall not be segregated in greater detail than the major classes or projects for which they are expendable during each fiscal year of the biennium.

The State's budget law makes no mention of transfers. Evidently the allotments and work programs are deemed sufficiently

or change such allotments before approving the same. The aggregate of such allotments shall not exceed the total appropriations made available to said department or agency for the fiscal year in question. The State Budget Officer shall transmit a copy of the allotments as approved by the Governor and Council to the head of the department or agency concerned, and also a copy to the State Comptroller. The State Comptroller shall thereupon authorize all expenditures to be made from the appropriations on the basis of such allotments and not otherwise. *Me. Laws (1931)*, c. 216, § 8.

¹⁴ *Ibid.*

¹⁵ *N. Y. Times*, April 6, 1933.

broad to obviate the need for them. It does not appear, furthermore, that the voting practices require inter-unit transfers of appropriations.

The survey of Maine's financial structure made by the Institute of Public Administration experts gave rise to several other recommendations which were followed. The permanent allotment scheme was adopted as suggested in the report of the experts. The discussion of the reserve fund practices is of interest. The report stated:

At least a 5 per cent reserve should be withheld from each lump sum appropriation for operation, the reserve being set up against any contingencies which may arise during the fiscal year. This reserve provides a certain leeway which insures that the total appropriation will not be over-expended, if anything out of the ordinary should occur. It also makes the use of the so-called State Contingent Fund unnecessary for the ordinary operation of State agencies.

The State Contingent Fund, amounting to \$300,000 is placed in the hands of the Governor and Council to appropriate for any purpose they may see fit. It has been customary to use a considerable part of this fund each year to meet operating and maintenance needs, or to meet contingencies which might have been easily anticipated in the budget. With a system of budgetary control, such as we have just outlined, it should be possible to dispense with this fund altogether. For real emergencies an appropriation to be allotted by the Governor of \$50,000 for the biennium should suffice. This amount should be carried in the budget and a detailed accounting of it made to the legislature.¹⁶

This comment serves to illustrate the point that the actual administration of a reserve policy is of far greater practical significance than are any statutory requirements. The willful omission of items in the budget because of the knowledge that a reserve fund is available, is one of the many ways of facilitating "paper" balancing. The new budget law contains a reserve provision which embodies the suggestion of the experts.¹⁷

¹⁶ Institute of Public Administration, *Maine Survey, op. cit.*, p. 57.

¹⁷ In order to provide some degree of flexibility to meet emergencies arising during each fiscal year in the expenditures for operation and maintenance of the various departments and agencies of the State Government, the State Budget Officer, with the approval of the Governor and Council, may require the head of each department or agency, in making the original allotments, to set aside a reserve, the exact amount of which shall be determined by the State Budget Officer, of the total amount appropriated to the department or agency. At any time during the fiscal year this reserve or any portion of it may be returned to the appropriation to which it belongs and may be added to any one or more of the allotments, provided the State Budget Officer shall deem such action necessary and shall notify the State Comptroller of such action; any unused portion thereof shall remain at the end of the fiscal year as an

Wisconsin

Wisconsin is one of the so-called progressive states in which the power to modify expenditures has on several occasions been conferred upon the executive. There was also some proposed, but unaccepted, legislation that involved a double set of appropriations corresponding to two sets of fiscal circumstances which may have justified different courses.¹⁸ This would have reduced the necessity for any post-voting revisions not specified in the legislation.

The Budget Director, together with the Emergency Board, consisting of the Governor and the Chairmen of the Senate and Assembly Finance Committees, controls the execution of the budget. With the exception of the legislature and the judiciary, all spending agencies must submit to the Budget Director estimates of the proposed expenditures for the ensuing fiscal quarter. The Director is empowered to examine such estimates to determine whether revenues are available and whether expenditures can be made without danger of exhausting available appropriations before the end of the budget period. If a study reveals sufficient revenue available to finance the estimates, the Budget Director must approve them as submitted and must so notify the Secretary of State. Otherwise he must disapprove them in whole or in part. This provision of the allotment scheme does not apparently involve permanent retrenchment powers. A postponement rather than a curtailment of the outlays, is involved. The reductions of appropriations in the State were made under the authority of the various emergency measures attached to appropriation enactments during the crisis years. These have empowered specific changes during stated periods. First, the Emergency Board was given the power to reduce appropriations up to 20 per cent during the fiscal years 1932 and 1933. Salaries under \$2,000 were specifically exempted from the retrenchment cuts.¹⁹

The writer has been informed that reductions have been made under the authority of this act. In 1933 the power to cut out-

unexpended balance of appropriation. Any unexpended and unencumbered balance of allotments at the end of each quarter shall be credited to the reserve set up for the fiscal year. *Me. Laws* (1931), c. 216, § 8.

¹⁸ The Executive Budget Bill now before the 1935 legislature provides for an 'A' and a 'B' Budget. The bill first provides for so amending present appropriation laws as to bring the total appropriations within the amount which it is estimated present revenue laws will produce. The result was a 20 per cent reduction of practically all appropriations, the exceptions in nearly every case being irreducible fixed charges such as coal, insurance, etc. These reduced appropriations constitute 'Budget A.' Another section of the Executive Budget Bill before the present legislature provides a schedule setting forth the amount by which each appropriation in 'Budget A' would be increased to provide the amount the Governor desires each department to have in 'Budget B', these increases to become effective and available in whole or in part when the Emergency Board determines sufficient revenues are available. The increments provided in 'Budget B' may well be termed provisional. *Wisconsin Budget System, op. cit.*, p. 6.

¹⁹ *Wis. Laws* (Spec. Sess. 1931-1932), c. 30, § 1. Section 2 provided that opportunity for hearing must be given to the affected agencies.

lays was extended to cover the 1933-35 biennium and the extent of the cuts was increased to 25 per cent.²⁰

There are a few stated exceptions and exemptions. With respect to special capital appropriations the approval of the Emergency Board is necessary before expenditures may be made. This phase of the State's finances is subject to a permanent permissive revision status. Other than stated exceptions, the board may reduce such capital appropriations by as much as 25 per cent. The State has voted lump sums for only a limited number of functions and has not permitted transfers.²¹

This implies that such revisions as are made must be sanctioned under the allotment or reduction provisions. For new or increased items a lump sum, usually \$250,000 or \$300,000, is appropriated to the Emergency Board. With this fund it may supplement appropriations that prove insufficient. Overdrafts are not permitted. The writer has also been informed that

appropriations are frequently enacted which become effective and available only when released by the Emergency Board. The Emergency Board's release may be contingent on the department's need of additional appropriations or on its complying with certain conditions or may be contingent on the availability of sufficient revenues.²²

In connection with the revenue qualification, it will be recalled that at one time Wisconsin provided for an automatic increase in the property tax rate every time a cash balance in the State Treasury fell below a stated minimum. This was a pre-depression interpretation of the best reaction to fiscal emergencies.

In the mandatory revision group, Virginia was noted to have adopted its provisions in connection with particular budget periods. The three states of wide geographic and institutional contrasts that have just been surveyed are in a similar position in the permissive group. No basic budget laws are involved. Wisconsin, in particular, is of interest because of the wide variety of provisions that the State has adopted or that were proposed. In addition to the transitory permissive retrenchment powers that have been delegated, there have been suggested special provisions allowing modifications of certain capital outlay appropriations and contingent appropriations representative of the philosophy that was proposed but rejected for the entire fiscal program.

²⁰ Wis. Laws (1933) c. 140.

²¹ There are no general provisions permitting the transfers of items in the voted budget. Appropriations are made for the Charitable and Penal Institutions and for the State Teachers' Colleges in lump sums for each of the following purposes: Operation, coal and insurance, maintenance, miscellaneous capital and special capital. The administrative boards allot these sums to the institutions under their supervision as they see fit. This was done to provide the flexibility which did not formerly exist when appropriations were made for each institution for each of these purposes. *Wisconsin Budget System, op. cit.*, p. 7.

²² *Ibid.*

Maine alone has lump sum voting provisions; none of the three states has liberal transfer privileges; all three make some mention of devices to meet emergency needs.

Vermont

There remains in the permissive revision group one state whose execution philosophy is unique. In Vermont wide discretionary powers, effective during the execution of the Budget, have been given to the Emergency Board, consisting of the Governor, the Chairmen of the Finance and Ways and Means Committees of the Senate and House, and the Chairman of the Appropriation Committee. It will be noted that this legislative representation on the committee to a certain extent implies legislative approval of the modifications that are made. The Emergency Board may increase or decrease appropriations, as well as permit transfers of items between departments. The transfer powers are important because the unit of voting is large and much can be saved through the judicious spending of lump sum appropriations. Prior to the depression the Governor and the State Treasurer, acting as a Board of Appropriations, were empowered to effect transfers of appropriations within departments.²³

The Emergency Board has been given authority to make appropriations in order to finance deficiencies or emergency needs. The Board may even borrow on the credit of the State.²⁴

Vermont stands alone among the states with regard to its concept of executive budget powers during the execution phase. There could hardly be a greater delegation of power without reducing to naught the significance of the voted budget. In this New England Commonwealth appropriations are voted in lump sums, and transfers between voting units and between departments are permitted. The State permits the executive to sanction overdrafts, and authorizes him to make reductions in authorized expenditures. Vermont's rare borrowing provisions add the final touch to the liberality of its system.

Only in this State is there the combination of a powerful agency operating with broad, almost dictatorial, delegated powers combined with liberal borrowing laws. The Emergency Board may do anything it wishes except levy taxes in order to meet fiscal needs. No other State has so sensibly acted in an endeavor to overcome the limited opportunities for efficient planning and voting, in view of its biennial budget period and other elements inherent in its budget system.

As commendable as this system appears in the State in which it is found, and as desirable as it might be in such jurisdictions as New York or Massachusetts, it is inconceivable that many of the other states, notably those in the financially troubled Mid-Western and Southern areas, might profit by it.

²³ Vt. Pub. Laws (1927), c. 25, §67.

²⁴ Vt. Pub. Laws (1933), c. 30, §56.

Summary and Conclusions

The states in this permissive revision category are, as a rule, not to be considered fortunate. There is every reason to believe that the drastic economy reductions, with their implication of deflationary, uneconomic, and anti-social measures, were required, and that the provisions outlined above represent only formal elements of discretion. The states, however, are to be commended for having paid some, if only nominal, attention, to the concept of executive budget leadership. If post-voting economy measures remain essential, those of a permissive character are to be sought. If the states are fortunate in their choice of fiscal officials and executives, they can profit by giving wide discretionary powers to those administering the laws. It should remain the goal of the commonwealths to adjust their financial structures and to avoid circumstances that necessitate more than peripheral revisions of well planned and well adopted fiscal programs.

CHAPTER XLVIII

UNREVISED EXPENDITURE STATES

In this chapter the practices of seventeen states, including such financially important jurisdictions as California, Connecticut, Massachusetts, Minnesota, Nebraska, New York, and Pennsylvania, are considered. These states are mature in the sense that legislative intent regarding a desired fiscal program does not have to be disregarded. They have all refrained from allowing or compelling their executives to revise downward, even within moderate limits, the voted expenditures. Expenditures, not retrenchment policies, are mandatory for this group. It will be noted that there are discretionary powers but these do not go beyond those linked to normal allotment and emergency financing schemes.

California

In California the degree of control that exists must be related to the fact that all expenditures are voted in lump sums. Previous to the beginning of each fiscal year each State agency submits to the Department of Finance a proposed budget for the ensuing twelve months' period. The plan for allotment is facilitated by the maintenance of continuous contact between the Department of Finance and the accounting offices in the various State spending agencies for the purpose of formulating an efficient allotment scheme. The Director of Finance must approve the allotment plan, but has the power to make adjustments. Naturally intradepartmental transfers may be made with the approval of the Department of Finance. There are no provisions, however, for shifting portions of the appropriations between spending agencies. An emergency fund exists to cope with any extraordinary needs. California has a State Board of Control composed of the Director of Finance, the Chief of the Division of Service and Supply, and the State Comptroller. The first two are appointed by the Governor. This Board controls any excess expenditures, which may be made only upon its unanimous consent.¹ The statute that deals with expenditures in excess of voted appropriations has been summarized as follows:

The officers of the various departments, boards, commissions and institutions for whose benefit and support appropriations are made in this act are expressly forbidden to make any expenditure in excess of such appropriations, except the unanimous consent of the state board of control be first obtained, and a certificate, in writing, duly signed by every

¹ Cal. Stat. and Amend. to the Codes (1927), c. 142, §5, pp. 265, 279. (*Compilation and Digest of Executive Budget Laws, op., cit.*)

member of said board, of the unavoidable necessity of such expenditure.²

Colorado

In Colorado the work program submitted by the agencies becomes the basis for departmental spending after approval by the executive council. Although the State Budget and Efficiency Commissioner, with the approval of the Governor and Executive Council, has no power to decrease expenditures, he may require the head of each spending agency to set aside a reserve, the amount of which shall be determined by the Council. There is a striking similarity between the Colorado and the Maine provisions that appear to have the same source.³ The reserve forms a basis for financing deficiencies or extraordinary needs within the various departments since transfer powers are involved. It is a method both of enforcing economy and of assuring the availability of funds for exceptional needs. The State's new budget law embodies the best thought in its field, a fact that is supported by the provision for lump sum appropriations. Section twenty of the 1933 law specifies that the drafts of the budget bills, which are to be submitted with the estimates, "shall include the general appropriation bill, authorizing by departments, institutions and agencies, and by funds, all expenditures"⁴

No mention of any further detail is made.

The allotment scheme obviates the necessity for granting authority to make intra-voting unit transfers. Inter-departmental or inter-fund transfers, except as noted in the reserve provisions, are not allowed.

It would require only a slight *tour de force* to include Colorado, without further qualifications, in the permissive retrenchment group. As is the case of some of the above-mentioned states appropriations in the full amounts voted by the legislature are not available to the spending agencies unless the approval of some executive agency is received. Colorado's practice with its sound limited discretionary measures is among the best found.

² *Ibid.*

³ In order to provide some degree of flexibility to meet emergencies arising during each fiscal year in the expenditures for operation and maintenance of the various departments, institutions and agencies of the State Government, the State Budget and Efficiency Commissioner, with the approval of the Governor and Executive Council, may require the head of each department, institution or agency, in making the original allotments, to set aside a reserve, the exact amount of which shall be determined by the Executive Council, of the total amount appropriated or other funds available from any source whatsoever to the department, institution or agency. At any time during the fiscal year this reserve or any portion of it may be returned to the appropriation or other fund to which it belongs and may be added to any one or more of the allotments provided the Executive Council shall deem such action necessary and shall notify the Auditor of State of such action. Any unexpended and unencumbered balance of allotments at the end of each quarter shall be credited to the reserve set up for the fiscal year. Colo. Laws (1933), c. 37, §23.

⁴ *Ibid.*

Connecticut

In Connecticut legislative efforts have tended towards keeping the expenditures within the limits of the appropriations. As in most of the New England and Middle Atlantic states, extra-legislative economy measures have not been adopted as a solution of depression problems. The provisions indicate that present powers deal primarily with the problem of increases in appropriations, and are aimed at preventing them from causing further deficits. The following communication from a leading financial officer of the State indicates that some thought was given to post-voting retrenchment:

Two years ago we presented a balanced budget, but stated that:

"In order to provide a safeguard against incurring a deficit, particularly in view of the impossibility of estimating accurately the proceeds of collections of some of the important State taxes, which will be influenced by the business depression, appropriations up to the full amount of the estimated available resources should be recommended, but legislation should also be recommended to permit the State Board of Finance and Control to authorize expenditures under appropriations for capital outlays, only when the condition and probable future condition of the Treasury seem to assure that such expenditures can be met without incurring a deficit."

In presenting the accompanying recommendations, we are again constrained to emphasize that, under existing conditions, budgeting must be a continuing process. There is no means of accurately measuring the effect of the prevailing economic conditions on the revenues of the State, nor can economic trends in the future and their effects on State finances be predicted with sufficient accuracy to afford assurance that a balanced budget for the ensuing biennium will remain in balance. The real problem is one of financial administration, involving the controlling of current expenditures under a balanced budget to keep them within the amount of available resources, and entailing the coöperation of every spending agency in the execution of a program of rigid economy. We are not, however, proposing that any additional powers be conferred upon the Board of Finance and Control, as we believe that all departments and institutions will voluntarily coöperate with the Comptroller and with the Board in carrying out such a program and in meeting such exigencies as may arise during the ensuing biennium.⁵

The last sentence quoted may allude to voluntary cuts such as are noted in Oklahoma and Missouri. The provisions affecting

⁵ Letter from William H. Hackett, Tax Commissioner, Hartford, under date of June 8, 1934.

the States' practices indicate the wide emergency powers that are available. With the written consent of two-thirds of the Board of Finance increases in specific appropriations may be sanctioned. Such increases are made from a contingent fund appropriated to meet such deficiencies, and may not exceed the amount of this fund.⁶ The Board of Finance and Control also has the authority to make intra-departmental transfers. Minor transfers of less than \$1,000 may be made by the Controller with the consent of the Commissioner of Finance and Control and do not require prior approval of the Board, though they must be reported to the Board at its next meeting.⁷ The 1933 legislation provided for transfers between items, thus broadening the previous permissive authority formerly so closely restricted by the detailed presentation of appropriation bills. Appropriations are itemized, as are the budget estimates.

Georgia

In Georgia the appropriations in lump sums to departments or the units thereof render some executive control possible. The State statutes require that this be achieved through quarterly allotments. The Governor has no power to modify the appropriations and his tasks are concerned chiefly with requiring their conformance to the budget act as passed by the Assembly. He may, however, modify allotments and approve intra-departmental transfers. Statutes provide for a contingent fund under the control of the Director of the Budget to be used for deficiencies. It is surprising that this State has avoided the typical Southern attitude towards the execution problem. The State, however, does not merit a full measure of praise since on one occasion its legislature failed to pass any appropriation bill at all. Furthermore, serious fiscal crises have been fairly common. There is ample indication that the legal provisions have not been executed on a sound basis.

Indiana

Indiana's legislative solution of fiscal crises is a rare one. It follows the practices of the states in the first group mentioned, to the extent that it stipulates a mandatory reaction to insufficient revenue. The solution, however, in the Hoosier State is not

⁶ Painstaking care is taken to live up to the budget. Under certain conditions the state board of finance and control may increase appropriations when the general assembly is not in session. It is the custom for each session of the general assembly to provide for a contingent fund. Section 29b of the 1933 cumulative supplement to the general statutes provides that increases in appropriations by the state board of finance and control shall not exceed the contingent fund so set up to meet deficiencies in appropriations. Under certain conditions appropriations may be transferred from one item to another. (Section 30b of the 1933 cumulative supplement to the General Statutes.) *Ibid.*, p. 7.

⁷ Connecticut Laws of 1931, Sec. 35c. Chap. 10. Conn. Pub. Acts (19..), c. xxx, §xx.

found in a slashing of expenditures but in efforts to increase tax yields. This reaction is uncommon. It may, however, be noted in a different form in some older Wisconsin statutes. While the property tax lends itself to an extra-legislative modification, this is one of the few cases in which an adjustment is made after the tax rate for the biennium has been fixed.

If at any time prior to October 1 it is determined that revenues in the current fiscal year will be insufficient to meet all requirements, the State Treasurer may fix property tax rates and levies for the purpose of raising revenue, provided that such rate in any one year does not exceed 15 mills on taxable property. The power or duty to cut expenditures is not present, even if this revenue provision proves inadequate. This solution is available only for the first year of a biennium. Provisions provide further that this special tax levy may be suspended if a surplus appears likely. In any event, to impose the levy or to suspend it, the approval of the Governor is necessary. This device is interesting but it offers no solution for the dilemma in which states without borrowing powers find themselves. It is more significant for purposes of this study to note that Indiana permits no interference with voted outlays.

There is no specified unit of voting. Evidently the itemization of the budget is followed in the appropriation bills. The Treasurer has the power to make inter- and intra-departmental transfers, which reduces the significance of any prescribed voting unit. In the event of an insufficiency of funds for emergencies the Treasurer may make appropriations for the succeeding fiscal year available to meet expenses of the current year.

Massachusetts

Massachusetts conforms to the New England and Middle Atlantic states patterns which do not meet crises by granting discretionary economy powers to the executive. The general appropriation bill, which is itemized and classified according to the departments or other spending agencies, with organizational or functional subclassifications, forms the basis for the expenditures that are administered by the Governor, the Council, and the Comptroller. Inter-unit transfers of appropriations are not allowed.⁹ In the event of contingencies a fund of \$100,000 appropriated to the Governor and the Council for such deficiencies may be used.⁹ If the fund is exhausted there does not appear

⁹ Mass. Acts (1923), c. 362, §30.

⁹ No expenditures in excess of appropriations . . . shall be incurred by any department or institution, except in cases of emergency, and then only upon the prior written approval of the governor and council. Mass. Acts (1928) c. 128, §3. *Compilation and Digest of Executive Budget Laws, op. cit.* The Council is composed of the Lieutenant Governor and nine other persons chosen by joint ballot of the Senators and Assemblymen. *Mass. Const.* §§73, 74.

to be any further legal method available to the State officials to obtain revenues. An extra-legal practice has been reported in the State.¹⁰

Michigan

In Michigan the State Administration Board supervises the execution of the budget. It resorts to an allotment scheme to accomplish this. There is no specified unit of voting and the detailed classification within the budget is usually followed. The Board may approve of intra-departmental transfers but transfers between departments are specifically prohibited. In the event of emergencies the Board has at its disposal a voted emergency fund which amounts generally to from 3 to 5 per cent of total appropriations. The Board is also empowered to make expenditures out of special fees or taxes that may accrue to the Treasury.

A practice is noted which is similar to that which was found in Germany in connection with its extraordinary expenditures. No funds may be released for capital improvements until the entire amount necessary for the completion of the project is available in cash at the time the contract is let. It is further provided that such release must not create or add to a deficiency in the general fund. It can be seen that this State, as do most of the others in this group, makes only occasional and rare efforts to destroy the validity of the voted program. The provision regarding the availability of funds for public works may not represent the philosophy of the best depression financing policies. However, it is less objectionable than the cuts in maintenance and salaries, since federal aid seldom covers this field of governmental activity.

Minnesota

In Minnesota a typical allotment scheme is present. There exist apparently no powers with respect to making any changes, revisions or approving transfers within voted units. Transfers outside the scope of voting units are not permitted.¹¹ The voting units appear to follow the budget and to be itemized accord-

¹⁰ If . . . there is a shortage in any Department then the \$100,000 appropriated for the Governor and Council is used by a vote of the Governor and Council to fill in the amount that a Department is seeking. In the event that the Governor and Council have used this \$100,000 voted for extraordinary and unforeseen expenses, like the entertainment of guests, then the Department must wait, simply because there is no money available for that purpose, although it is true that nothing suffers very much as frequently bills are allowed to be created and carried over, although this is only in a transfer and, so far as I know, has never been resorted to. Letter from Henry Long, Commissioner of Corporations & Taxation, Boston, under date of February 21, 1936.

¹¹ Each disbursing officer, or board, is permitted to allot the appropriations for his or its department or institution not inconsistent with the terms of the appropriation act. Minn. Stat. (Mason, 1927), § 118 (*Compilation and Digest of the Executive Budget Laws, op. cit.*)

ingly. The basic budgetary law states specifically that State money must be expended as appropriated.

Since the budget laws mention overdrafts as well as deficiencies there is some reason to believe that expenditures in excess of appropriations may be sanctioned if necessary.

Mississippi

In Mississippi, beyond an allotment scheme, little statutory basis with regard to execution stage practices is provided. The allotment scheme, operating on a quarterly basis, is of recent origin. The Legislature has delegated no powers with respect to revision of any sort. Transfers are prohibited. However, a provision allows the Governor to approve agency allotments that go beyond appropriations, if emergency conditions create added needs. This does little to avoid the accumulation of deficits. The system was subject to much criticism in the Brookings Institution survey. Pro rata expenditure decreases, similar to those that were instituted in neighboring states at a later date, were recommended and the State was severely criticized for its failure to appreciate the significance of the execution period. Suggestions very similar to those made for Iowa are noted.¹² The proposal, also made by the Brookings experts, that an improved allotment scheme and a system of lump sum voting be instituted, are more likely to receive universal approval. The same applies to the proposal that the Budget Appropriation Bill should include a specific sum as a contingent or emergency appropriation, to be

¹² *Power to Reduce Appropriations Pro Rata.* In furtherance of the policy of the state to maintain a balanced budget, to the end that state expenditures shall not exceed the total income of the state within the fiscal period, a provision should be inserted in the budget law and in each maintenance appropriation bill giving the Governor power to reduce all appropriations, except those for meeting state bond and interest maturities, *pro rata* when this appears to be necessary to balance the budget and to bring the total appropriations for all purposes within the revenue actually collected within the fiscal period.

Executive Control. The budget law, as proposed to be amended, and the supplementary measures recommended in this report, provide the means whereby the fiscal affairs of the state can be administered in an orderly manner and under the definite responsibility and supervision of the Governor.

To withhold the necessary means of control from the chief executive would be to continue to weaken the most important function of our system of government. Diffusion of executive power does not safeguard against official abuse, as was once thought, but only serves to disguise and conceal it.

The thought may occur to some that an executive budget system, as here outlined, would tend to take from department and institution heads the power to initiate and direct their own affairs. As a matter of fact, operation of an executive budget system in other states and in the national government has proved that under such a system responsibility has been fixed and these officials enabled to view not only their own activities but also those of the state, as a single operating unit, of which their departments and institutions are so many vital but interdependent branches. (Brookings Institution, *Mississippi Survey, op. cit.*, p. 367.)

allocated after a written request by the agency desiring such allocation and after approval by the Governor upon recommendation by the Comptroller.¹³

Nebraska

In Nebraska a rigid allotment scheme does not permit any major changes to be made in the voted budget. Each month all agencies must submit to the Department of Finance, of which the Department of Taxation and Budget is a unit, statements of expenditures for the preceding month. Data submitted by the Auditor aid in formulating the allotments, which the Governor then approves. The statutes provide for itemized appropriation bills but the State has on some occasions failed to follow this legal mandate.¹⁴ Transfers are apparently prohibited by the Constitution which provides (Article 3, Section 25) that "no money shall be diverted from any appropriation made for any purpose or taken from any fund whatever either by joint or separate resolution." The State successfully weathered the depression through judicious financial policies and did not resort to delegating post-voting economy powers.¹⁵

New Hampshire

In New Hampshire an effective allotment system is used.¹⁶ Budget

¹³ *Ibid.*, pp. 366, 367, 369.

¹⁴ The law required the governor to submit an appropriation bill "clearly itemized and properly classified." As passed by the legislature the bill is in a "lump-sum" form as to salaries for the elective officers and the main appointive officers. *Compilation and Digest of Executive Budget Laws, op. cit.*

¹⁵ Data on provisions dealing with emergency outlays are not available.

¹⁶ The Governor, in performing the budget duties imposed upon him, does not confine himself to the mere work of formulating the budget document, but, through the Comptroller's Office, exercises close control over the expenditure of the moneys after they are voted. This is particularly effective in New Hampshire because of the fact that the budget law provides that the appropriations made shall not be available for expenditure until allotted, by the Governor. The requests for quarterly allotments are submitted to the Governor through the Comptroller's Office. After approval, the allotments are set up as a credit on the Comptroller's books. The allotments thus made may be compared to a deposit in a bank since the Comptroller will not authorize the incurrence of an obligation or the payment (withdrawal) of any vouchers against a given appropriation until he receives an approved allotment advice from the Governor.

The installation and operation of the budget and financial control system have been of great benefit to the taxpayers during the past fiscal year in keeping down and controlling expenditures of the spending agencies of the state government.

The departments are no longer permitted to spend their appropriations without first justifying such expenditures. Departments can no longer exhaust their appropriations during June of each fiscal year by buying new office furniture and equipment not absolutely needed; nor can they increase their inventory of current supplies in one fiscal year to supplement the ensuing fiscal year's appropriations. Brookings Institution, *New Hampshire Survey, op. cit.*, p. 357.

bills are itemized in detail and are classified according to organization unit and object, thus reducing the probability of surpluses available for emergencies. Intra-departmental transfers may be made with the consent of the Governor and State Council, which consists of five elective members. A similar provision allowing such transfers was embodied in an older budget law.¹⁷

The legislature sometimes makes emergency appropriations. The consent of the Governor and the Council is necessary before recourse to their reserve appropriations is permitted.

Other States

In Nevada expenditures must follow appropriations. However, intra-departmental transfers up to 25 per cent of the appropriations voted may be made. Other transfers are prohibited by a provision which rules that "the sums appropriated for the various branches of the public service of the state shall be applied solely to the objects for which they are respectively made and for no others."¹⁸ In case of extreme emergencies and with the unanimous vote of the Board of Governors expenditures may exceed appropriations.¹⁹

In North Dakota the Emergency Commission has little power to modify items already voted. Apparently the legislature itself indicates much of the necessary modification and carries it out through shifting of balances of funds. The Commission may sanction intra-departmental transfers thus eliminating some of the rigidities inherent in the detailed appropriation acts. The Commission's powers deal, as its name implies, primarily with the financing of unforeseen needs. It may draw upon a contingency fund over which it has control. In case of necessary expenditures arising out of unpredictable needs the Commission may also order a transfer of funds from the State Treasury to finance them.

In Pennsylvania the statutes allow the Governor little if any departure from the voted appropriations. No important concessions in the interest of preserving the equilibrium of the State finances are permitted. There are two phases of his powers and duties. The first is the allotment of lump sum appropriations, which gives them considerable flexibility.²⁰ The procedure has been commented upon as follows:

After the appropriation bills are signed, the Governor allocates to various departments, boards and commissions, por-

¹⁷ In case the allotment in the appropriations for any state department for any specific purpose is insufficient for any fiscal year, a transfer from the allotments for other purposes in that department may be made by the state treasurer, upon the approval of the governor and council. N. H. Pub. Laws (1926), c. 15.

¹⁸ Nev. Stat. (1919), c. 45, § 6931, as amended, *Compilation and Digest of Executive Budget Laws, op. cit.*

¹⁹ *Ibid.*, § 6932.

²⁰ A comprehensive description of the Pennsylvania allotment scheme is found in the *Report on the Organization and Administration of the Government*, prepared by the Joint Legislative Committee on Finance, (Harrisburg, 1934), pp. 44-45.

tions of the appropriations to the Department of Property and Supplies for the purchase of supplies, equipment, motor vehicles, surety bonds, insurance, and the payment of rentals for offices or other space leased outside the Capital or outside of Harrisburg. This duty is conferred upon him by Section 701 (h) of the Administrative Code.

To do this the General Assembly appropriates to the Department of Property and Supplies certain lump sum appropriations. These appropriations the Governor allocates among the several departments, boards and commissions, after which each allocation becomes expendable in the same manner as an appropriation. Incidentally, it may be pointed out that this arrangement, properly controlled through the Budget System, provides a flexibility of funds, controlled by the Governor, which can be applied with facility to meet governmental emergencies which may arise.

The principle of granting lump sum appropriations has become a policy of the General Assembly since the establishment of the Budget System.²¹

There has been no delegation of power permitting the State to make inter-voting unit or inter-departmental transfers.

A second factor is that the Governor is also permitted to authorize the spending agencies to increase their rate of expenditure so that the total appropriation will be exhausted before the close of the biennium for which the legislature had provided. This enables the Governor to provide for emergencies and for deficiency needs. His authority has never extended beyond adding one-sixth to the total appropriation. Actually the appropriations are not exhausted because of the fact that the following legislature will be asked to make a supplementary or deficiency appropriation to support the agency until the end of the biennium. It will be noted that this is possible in such states as Pennsylvania where the legislature meets six months before the close of the biennium. This advantage does not compensate for the poor formulation practices that its biennial budgetary period implies.

In Rhode Island the Executive is not granted any power to restrict appropriations. However, transfers of funds from one detailed voting unit to another within the total amount appropriated to any spending agency are permitted with the approval of the State Commissioner of Finance and the Governor. Inter-departmental transfers that will result in increasing the total amount appropriated to any spending agency are prohibited. However, as is frequently the case, overdrafts are tolerated and are ratified in special acts at the next session of the legislature.

In Washington legislation that would have authorized the Division of the Budget to modify expenditures in terms of available revenue and other circumstances through an allotment scheme, failed of passage in the 1935 legislative session. The chief fea-

²¹ Townsend, *op. cit.*, p. 2.

ture of the bill was an allotment scheme delegating to the Governor the power to cut or postpone outlays, as well as a control over deficiency items.²² Under the existing laws neither modification nor the transfer of items is permitted. This means extreme rigidity since appropriations acts are itemized in great detail. Overdrafts may be incurred only in the event of emergencies and with the written approval of the Governor. The amount of such emergency outlays may not exceed \$250,000 in any biennium. This State follows the practice of many others in not requiring special legislative approval for the deficiency items financed out of available contingency resources.

In this brief survey of some outstanding execution stage practices in state budget systems those of several jurisdictions, including Delaware, Kansas, Louisiana, Montana, New Mexico, South Dakota, and Texas, have not been discussed. The absence of any specific data on the practices in these states is the sole reason for their omission. It is also possible that some of the states in the third (unrevised expenditure) or second (permissive modification) groups may have been erroneously classified. Recent appropriation acts may have had riders which for a particular period, would have placed the state in another group. In one or

²² The following is a copy of the proposed bill:

Be it enacted by the Legislature of the State of Washington:

Section 1. That Chapter 9, Laws of 1925 (chap. 3, Title 75, Rem. Rev. Stat.), be amended by adding a new section thereto to be known as section 8-a, to read as follows:

Section 8-a. No legislative appropriation to any office, department, institution or other agency of the state, except the legislature and the judiciary shall become available for expenditure until the responsible head thereof shall submit to the director of efficiency, or the successor of such officer, through and by means of the division of budget, quarterly estimates of the amount required for each activity to be carried on, and such estimates shall have been approved by the director. Supplemental estimates may be submitted during any quarter covering additional allowances necessitated by conditions of such nature that they could not reasonably have been foreseen. The director is authorized to approve such estimates and supplemental estimates in whole or in part and it shall be unlawful for any officer or department or institution head or any disbursing officer to incur any indebtedness or make any expenditure in any quarter in excess of the quarterly allotment or supplemental allotment approved by the director. Any appointive officer or employee violating the provisions of this section shall be subject to summary removal. Estimates under this section shall be furnished in triplicate and, after the director has endorsed his action thereon, one copy shall be returned to the forwarding office, department or institution and one copy transmitted to the state auditor. In passing upon estimates under this section, the director shall take into consideration the amount of the appropriation for the office, department or institution for the biennium the reasonable needs of such office, department or institution during the quarter for ordinary operating purposes; the need, if any, for extraordinary or non-recurring purposes; the probability of failure of revenue in the fund against which the appropriation is made, and any other relevant facts. The action of the director with respect to allotments for any elective state finance committee and the action of such committee shall be final. Senate Bill No. 316, State of Washington, 24th Regular Session.

two instances the writer has relied on newspaper reports to substantiate a classification. This involves the possibility of errors. It has been the intention to show trends and types rather than a survey of all the practices in each state. This will reduce the significance of the misinterpretations that will undoubtedly be noted.

There is ample evidence to indicate that the commonwealths whose practices have not been described fit into the typical systems that have been pointed out as representative of the three groups. A few isolated phases that have come to the writer's attention may be of interest. Louisiana is unique in that it has a legalized formulation of precedence in the matter of expenditures. The statutes indicate that the general appropriation act takes precedence over any other appropriation legislation, and that salaries and office expenses take precedence over other items in any voted outlay group. Such a legislative indication of essential items, if based on sound economic and financial reasoning, may be developed into a sounder retrenchment program than most of those observed.

In South Dakota is found an interesting device that solves the problem of financing unforeseen needs. However, it must be said that successful recourse to it may be had only in the first year of the biennium and that it is potentially a source of abuse. In simple terms, it involves authorization of expenditure by a state agency of part of its appropriation for the following year, upon the Governor's written approval. For the second year the opportunity for deficiency item voting prevents a normally irremediable sacrifice on the part of the beneficiaries of the second year's appropriations. This South Dakota device has nothing but expediency to recommend it.

New York

A discussion of the practices in the Empire State concludes the survey. New York's system is among the most rigid of those states that do not permit the Governor to modify the program over which he has had so much nominal influence during its preparation. There are no provisions whereby expenditures may be reduced. Appropriations are truly mandatory. Most of the appropriation bills are voted in itemized detail. There are several functions, chiefly capital construction items, for which appropriations are voted in lump sums.²³ Only in the case of these lump

²³ A former Director of the Budget has commented on New York's voting unit as follows:

Several years ago it was thought necessary to enact a highly segregated appropriation bill. To a very great extent we still follow that plan in New York, not because I believe it is the best one, but rather because of the reluctance of the legislature to make a change. Our legislature is not fully convinced that the executive budget is preferable to one prepared by it or by a board of estimate and control. It believes it should retain some measure of control and that it best can do that by an itemized appropriation bill.

Mark Graves, "State Expenditure Control," *Proceedings of the Twenty-fifth annual Conference on Taxation, op. cit., p. 148.*

sum appropriations for special activities is an allotment system used.²⁴ The agencies are voted funds according to the detailed appropriation bills. There have been suggestions that New York modify its practice and adopt a lump sum voting procedure. This would automatically enhance the control powers of the Executive.

Transfers are permitted within schedules for expenditures other than those appropriated for personal services. This is a common restriction and it prevents payroll padding. It is doubtful whether the transfer system in other states of itself encourages salary increases or the appointing of new employees even, though the practices are not specifically prohibited in the budget legislation as in New York. New York makes no provision whatsoever for expenditures in excess of voted appropriations.²⁵ If the need arises, special sessions must be called in order to vote supplementary items. This is usually in the period between July and January during which the legislature is not in session.

Summary and Conclusions

It is fortunate that the largest group consists of those states that have not been forced to adopt mandatory or permissive economy measures. With the exception of Vermont, and possibly a few others of the twenty-four commonwealths that have been listed, the states in the first two categories have all resorted to post-voting reduction as a means of alleviating the effects of financial crises. Whatever may be said about the fiscal or budgetary policies of the states in this last group none of them has forced or permitted its executive to cripple governmental functions and services that have already received legislative approval. Only Indiana is known to resort to supplementary tax rate increases as a nominal solution of a disappointing revenue yield problem. If any of the states here listed, seventeen in number, has made occasional experiments with permissive or even mandatory revision practices such experiments do not represent any definitive philosophies. If voluntary reductions have been achieved through the

²⁴ The Director of the Budget approves changes within schedules; that is to say in appropriations for expenses other than personal services in schedule form an amount may be transferred between items within the same schedule. In general, there is no such change authorized for personal service. In respect to lump sums for special activities the Director of the Budget approves original authorizations for both personal service and maintenance and operation, and amendments thereto.

The allotment system is not used except in lump sums referred to above. In such cases the period may vary according to the particular undertaking. Letter from Abraham S. Weber, Director of the Budget, Albany, under date of March 5, 1936.

²⁵ No spending agency may legally exceed the appropriation duly made by statute or expend funds for purposes not authorized by legislative act. Neither may any liability therefor be incurred in anticipation of future legislative action.

Article 3, Section 21 of the State Constitution provides for the expenditure of State funds except in accordance with an appropriation act. In conformity therewith the State Finance Law, Sections 35 and 36 confirms this restriction. *Ibid.*, under date of Sept. 9, 1936.

coöperation of executive departmental heads one of the least objectionable alternatives has been practiced. Most of these states have contented themselves with allotment schemes designed to discourage avoidable deficiency needs. As long as financial and economic backgrounds and political leadership remain, the states may be considered unprepared for the wide extension of executive budgeting powers, as exemplified in Vermont. It is needless to add that sound allotment schemes are essential even if they are not coupled with any reduction program.

Because of the absence of post-voting economies other phases of the execution stage practices loom significant. It is important that these states, of which only three have annual budgets, should provide the executive with some degree of discretion in husbanding the financial resources of the state. Still only four of the commonwealths, California, Colorado, Georgia, and Pennsylvania, are indicated as having advanced beyond the line-budgeting notions, which are now less highly prized than previously. One state, Nebraska, was reported to have practiced itemized budget voting in spite of legal sanction to do otherwise. That Connecticut, Indiana, Massachusetts, Michigan, Minnesota, New Hampshire, New York, Rhode Island, and Washington must look up to Georgia in the matter of voting units serves to indicate the ripe field for budgetary reform in many of the leading states.

In the matter of transfers, only two states, both in New England and in the detailed voting class, namely Connecticut and Rhode Island, report the delegation of inter-departmental transfer powers. Minnesota, Mississippi, Nebraska, and Washington stand at the other extreme in sanctioning no transfers whatsoever. With some consistency, not here conceived as a virtue, these states vote itemized appropriation bills and condone no revisions. The other eleven states in this group permit transfers within departments or, less liberally as in New York, within schedules of the departments. Nevada alone adds a percentage limitation, a somewhat meaningless provision since transfers are designed primarily to facilitate the redistribution of savings or the re-allocation of minor surpluses. Unless executives and department heads can be trusted to use their transfer powers in the interest of fiscal efficiency alone the privilege should never be granted. In defense of Nevada's statute it may be stated that 25 per cent of an item is a liberal transfer limit.

Almost every state in this group, except New York, makes some attempt to avoid deficiency items, special sessions, and extra-legal overdrafts. The writer has had no opportunity to ascertain the extent of the use or effectiveness of the various methods that are noted. The listing of the practices serves merely to indicate that the problem has been recognized. Almost every conceivable solution is represented. A number of states allow overdrafts. Washington legalizes the practice by providing a statutory limit on the amount in excess of voted appropriations that may be expended in the stated periods. A few states more wisely vote contingency fund appropriations thus providing the needed financing and avoiding the piling up of deficits through overdrafts.

Examples are also noted of schemes for shifting yearly appropriations within a biennium, of combining a reserve plan with an allotment scheme, and of the transfer of balances from certain funds. If a state has provided for the average deficiency that it has incurred in past years its method may achieve some measure of success.

The Reform of Execution Practices

It has already been noted that any revision of execution stage procedures is predicated upon changing fiscal policies and conditions. There perhaps will always be states without credit resources, lacking or failing to exercise effective taxing powers, and, above all, determined to retain a strictly interpreted quantitative balance in their budget programs. Such states must turn to execution phase retrenchment devices.

It is, however, feasible for a budgetary system to minimize the need for, and to avoid, certain drastic methods. This study has already attempted to outline revisions in other phases of budgetary systems that will facilitate such ends. Execution stage procedures are also amenable to reform. The following recommendations, to be considered in terms of the institutional background of each state, are offered. They are designed for flexibility and maximum control. They are suggested particularly for those jurisdictions that do not improve the other phases of their budgetary systems:

a. The use of lump sum appropriations whenever these are possible without interfering with administrative efficiency.

b. The adoption of improved allotment schemes in connection with these practices designed to encourage reserves for unforeseen requirements and to establish the legitimacy of deficiency needs.

c. The conferring of inter- and intra-departmental transfer powers to be used whenever revenue inadequacies threaten recourse to non-selective economy devices.

d. The recognition of the need of preparing for emergencies through providing contingency appropriations and reserve funds.

Such changes are necessary in order to avoid any fiscal or budgetary policies that do not allow executive budget leadership to assert itself or that require rigid and inflexible execution. The ultimate goal of the states should be towards a solution of their problems in terms of comprehensive and unified budget programs endowed with survival values. There is no execution stage substitute for timely and efficient formulation and adoption. Revenue and expenditure are not passive factors, but are adjustable to desired relationships during these two budgetary stages. During the execution period only limited and unilateral expenditure revisions are feasible.

In connection with New York State's particular budget problems, it is of interest to note that the discussions that have been held since the adoption of its system have not been much concerned with the execution phases. The broad social and economic philosophy of the State's leadership, its excellent credit standing, and its wide economic resources would have been a poor background upon which to project any of the drastic mandatory or permissive retrenchment methods. A lack of harmony between the legislature and the Executive may have restrained the delegation to the latter of some powers that the legislators now jealously guard. The system itself, in its comprehensiveness and unity, and its preparation and adoption procedure, is not of the type that makes a drastic execution policy essential.

The State could, however, benefit from a broadening of its executive budget concept. The voting of lump sum appropriations and the allocation of broader transfer privileges would lessen the need for deficiency appropriations by maximizing and equalizing savings. Much may be said for a mild policy of executive discretion in the realm of outlays in which an element of selection may enter. The comments of a leading financial officer of the State support this view. The President of the State Tax Commission, Mark Graves, spoke as follows when occupying the position of the State's first Director of the Budget:

It is not sufficient, as I see the situation, to attempt to control expenditures entirely through the instrumentality of the appropriation act. When our appropriation bill has been enacted, no authority for controlling expenditures exists. Not even the Governor can command or legally restrain one of his own appointees from spending the entire appropriations. He can, and has, used moral suasion, and with very good results. That is the weakest part of our budget procedure. I maintain that it is quite as important to control expenditures out of the appropriations as it is to exercise great care in making the appropriations in the first instance. It is virtually impossible for any spending official to anticipate twenty or more months in advance of the close of a fiscal year his financial requirements for that year. The result is that the official plays on the safe side, and if he errs at all, he requests more than will be needed. So, too, in the case of the budget-maker. If he must consider a large number of items for each agency, and make an allowance for each, he is, if he acts conscientiously, just bound to recommend in the aggregate more than will be needed. It is essential to have vested somewhere authority to restrain the spending agencies; otherwise they are too apt to view the appropriation as a command to spend rather than an allowance to spend. The presence of unexpended balances in appropriations presents all too frequently a temptation to incur obligations not absolutely necessary.²⁶

²⁶ Mark Graves, *op. cit.*, p. 148.

Since the Empire State has not been faced with the alternatives of deflationary expenditure policies or of harsh post-voting economies, the need is not felt for inter-departmental or inter-fund transfers or borrowings. The State would, however, find an efficient allotment scheme of value. Not only would execution procedures improve, but better standards would be created in estimating and in determining the validity and urgency of deficiency needs.

The State appears to be inadequately prepared to meet emergency fiscal needs and does not anticipate unavoidable estimating errors. There are no appropriations for contingencies nor are any sums allocated to the Executive for discretionary apportionment. The State can do much to facilitate the accomplishment of its projected expenditure and revenue equilibrium. In times of financial stress the failure adequately to anticipate unbalancing tendencies is tantamount to an acceptance of a deficit financing policy. Under New York's budgetary procedure this would involve the burdening of the subsequent fiscal period with the deficit incurred during the previous year.

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A set of survey charts of the budgetary systems of certain countries and states are made available with this report. These charts are reproduced from pp. 225-231 and 354-359 of the Seventh Edition of *Tax Systems of the World* (Commerce Clearing House, Chicago, 1938).

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