

## Week 9

**Recap:** PA's response to Plunkitt will be to bridge the gap between bureaucracy and democracy by building new organizations. Those organizations will suffer from bureaucratic rigidity, vague goals, diffusion of implementation responsibility, penetration of the task environment, limited managerial power over employees. We must respect the right to privacy even as we use sensitive information to pursue important objectives such as security. We also know that, in addition to being honest and avoiding any hint of corruption, we are now expected to be highly productive, efficient, and effective, even though many public sector activities involve hands-on service work that is not very susceptible to large improvements in productivity. We recognize that, in spite of that fact, we will be pressured to adopt private sector productivity techniques and increasingly to contract out public sector work to private companies, even though contracting is an area where corruption is often rampant.

**Prefatory Notes for Chapter 8:** This chapter deals with some of the biggest problems faced by governments at all levels and by the citizens who provide revenue and receive services: how expensive is government, what are its sources of revenue, what are the purposes of government taxing and spending, and what techniques are there for controlling government spending? Two issues are especially important. First, how equitable is the revenue collection system? That is, to what extent is the way that we collect money fair? Certainly in the State of Florida we have decided (just as they did in California in 1978 with Proposition 13) that property taxes are burdensome and unfair and should therefore be reduced. Sales taxes are an alternative, but they are accompanied by a long list of exemptions that Florida has placed on sales taxes. User fees are also an alternative: paying a fee every time you use a government service. In a sense, this seems fair: you pay for only the services you use and not for those you do not use. But take this to its logical conclusion: schools would be paid for only by the parents of children who attend them; courts would be paid for by the plaintiffs and defendants; public transportation would be paid for entirely by its riders. On whom would the burden of government fall if we continue to go this way? If pursued rigorously, would government be any different from business? The second intriguing issue in this chapter is described by Henry in this way: "Democracies are unable to avoid burying future generations in debt due to the need of elected policymakers to be elected and reelected." All the techniques that have been tried to gain control of the budgetary process will only result in very modest changes, in other words, because the driving force behind the process (getting reelected) will always drain the public treasury. Does this mean that responsiveness is bound to undermine itself through overspending? That is, will the demand for lower taxes and more services ultimately sink government? Is there a solution to this problem that is not "undemocratic"? Is this just a fancy, modern way of describing the problem posed by Plunkitt? That is, Plunkitt wanted to reward his supporters, but the way he did it made it seem unsavory and vaguely unethical. A modern politician dresses up the same approach as a policy and its associated programs and trumpets them during election time so that we vote for them; as

long as they are not engaging in graft, isn't this more or less the same thing as Plunkitt was doing?

"The budget is the skeleton of the state," it was once said. The budget tells you a great deal about the priorities of the government. Since the budget is about choices, it is necessarily political. But the ever rising cost of government has meant that there has been a constant search for ways to reduce public expenditures, and this chapter, like the previous one, details that long history of attempts to control public spending through administrative techniques. Those techniques have, in many ways, made public budgeting more transparent. But because public decisions remain full of conflict, the budgetary system is not entirely clear and efforts to restrain spending have not been very successful. There have been successful efforts to reduce taxes, but without commensurate cuts in spending, reduced taxes necessarily lead to great debt. And this is the most important measure of the essential problem of budgeting that remains with us to this day.

For Tweed and Plunkitt, was it important that the budgetary process be clear and transparent? If not, why not? What was gained by a lack of understanding of the budgetary system? Do you think that the administrators in the ICMA-TV videos look upon budgeting in the same way? What is the likely cost of all those expertly delivered public services?

## **Chapter Eight**

### **THE PUBLIC TROUGH: FINANCING AND BUDGETING GOVERNMENTS**

#### **CHAPTER OVERVIEW**

American government, including its administration, policies, and programs, are funded via various revenue and tax structures. Public finance, taxation, borrowing, and spending are addressed as well as economic policy at the federal and state levels of government. The many forms that public budgeting has assumed in the United States is emphasized, paying particular attention to the legacy of each system.

#### **CHAPTER OBJECTIVES**

1. Identify and explain public finance, focusing on revenue and expenditures at all levels of government.
2. Understand the impacts of the Congressional Budget and Impoundment Control Act of 1974.
3. Define and describe the various tax structures employed by the national, state, and local levels of government.
4. Identify and understand the different forms of federal economic policy.
5. Understand the elements, limitations, and legacy of: Line-Item Budgeting; Program/Performance Budgeting; Planning-Programming-Budgeting; Budgeting-by-Objectives; Zero Base Budgeting; Target Base Budgeting; and Budgeting for Results.

#### **CHAPTER OUTLINE**

**PUBLIC FINANCE: PAYING FOR PUBLIC POLICY**

The General Fund  
Special Funds  
Washington's Special Funds  
State and Local Special Funds  
Financing Services and Enterprises at the Grass Roots Level  
Borrowing and Bonding  
General Obligation Bonds  
Revenue Bonds  
Public Debt: The Primacy of the Public Authority  
Some Unofficial Forms of Special Funds  
Intergovernmental Grants for Special Purposes  
General Revenues for Special Purposes  
    Financing the Federal Government  
The Personal Income Tax  
    Social Insurance and Retirement Receipts  
    The Corporate Income Tax  
    The Excise Tax  
        Federal Expenditures  
Financing State Governments  
State Intergovernmental Revenue  
State Own Source Revenue  
State Taxes  
State Expenditures  
Financing Local Governments  
Local Intergovernmental Revenue  
Local Own Source Revenue  
The Local Property Tax  
Local Sales and Income Taxes  
The Rise of the User Fee  
Local Expenditures: A Monetary Menagerie  
Subnational Sorrows: The Penetrating Power of Federal Finance  
TAXING TIMES  
Understanding Income Taxes: The Federal Experience  
The Income Tax  
The Federal Experience  
Reforming the Federal Income Tax  
Understanding the Sales Tax: The State Experience  
A Regressive Tax  
Issues of Inequity, Intricacy, and Obscurantism  
    Understanding the Property Tax: The Local Experience  
Another Regressive Tax  
Relieving Regressivity  
Unpopular and Unpredictable  
The Future of State and Local Taxes  
The Information Revolution and the Tax Base  
Competing for Companies  
THE FEDERAL GOVERNMENT AND THE NATIONAL ECONOMY  
The Money Supply and the Federal Spigot  
The Heart of the Matter: Government Spending

Taxing and Borrowing

An Aside on Supply-Side Economics

Forms of Federal Economic Policy

Fiscal Policy

Monetary Policy

- Congress's Quixotic Quest: Decreasing Deficits
  - Failure: The Balanced Budget and Emergency Deficit Control Acts of 1985 and 1987
  - Success: The Budget Enforcement Act of 1990
  - Sense and Sensibility: The Omnibus Budget Reconciliation Act of 1993
  - Frustration: The Line-Item Veto Act of 1996
  - Dysfunctionality: The Balanced Budget Act of 1997
  - Nirvana Attained? The Budget Surpluses
- Back to the Future?
- Understanding Deficits and Debt
- Understanding Deficits
- Understanding Debt
- The Drivers of Deficits and Debt
- A Dismal Science: Deficits, Debt, and Democracy
- A FOUNDER ON DEBT (case study)
- PUBLIC BUDGETING: SPENDING FOR PUBLIC POLICY
- LINE-ITEM BUDGETING, 1916-1939
  - Reform! The Emergence of the Public Budget
  - The Consolidated Executive Budget
- The Budget and Accounting Act of 1921
- What Is Line-Item Budgeting?
- Honesty, Efficiency, and Inflexibility
- Inputs and the Budgetary Treatment of Paperclips and Parks
- The Legacies of Line-Item Budgeting
- PROGRAM/PERFORMANCE BUDGETING, 1940-1964
  - The New Deal and the Need for a New Budget
  - Clarifying Program and Performance
  - The Programs Problem
  - The Performance Problem
  - The Emergence of Program/Performance Budgeting
  - What is Program/Performance Budgeting?
  - Inputs and Outputs
  - Of Paperclips and Parks
  - The Legacies of Program/Performance Budgeting
- PLANNING-PROGRAMMING-BUDGETING, 1965-1971
  - An Emerging New Standard for Budgeting Theory
  - The Performance Problem (Again)
  - The Policy Problem
  - The Emergence of Planning-Programming-Budgeting
  - What Is Planning-Programming-Budgeting?
  - Inputs, Outputs, Effects, and Alternatives

Of Paperclips and Parks  
Issues of Complexity and Rigidity  
The Legacies of Programming-Planning-Budgeting  
BUDGETING-BY-OBJECTIVES, 1972-1977  
What Is Budgeting-by-Objectives?  
Inputs, Outputs, and Effects  
Of Paperclips and Parks  
The Legacies of Budgeting and Managing by Objectives  
ZERO BASE BUDGETING, 1977-1980  
What is Zero Base Budgeting?  
Alternatives  
Of Paperclips and Parks  
The Legacies of Zero Base Budgeting  
TARGET BASE BUDGETING, 1981-Present  
What is Target Base Budgeting?  
Inputs, Outputs, and Effects  
Of Paperclips and Parks  
Cutback Management: TBB's Administrative Adjunct  
Cutting Back for the Short Term  
Freezing Hiring  
Across-the-Board Budget Cuts  
Cutting Back for the Long Term  
Reorganizing Government  
Adopting New Technologies  
Improving Productivity  
Using Alternative Delivery Systems  
Rearranging Intergovernmental Relations  
Prioritizing Programs  
The Legacies of Target Base Budgeting  
Development of a Common Language of the Budget  
Seeing the Big Picture  
Enhancing Executive Control  
BUDGETING FOR RESULTS, 1993-PRESENT  
What is Budgeting for Results?  
Inputs and Outputs  
Of Paperclips and Parks  
The Breadth of Budgeting for Results  
Budgeting for Federal Results  
Budgeting for State Results  
Budgeting for Local Results  
The Possible Legacy of Budgeting for Results

## OLD BUDGET SYSTEMS NEVER DIE...

### ACQUIRING BUDGETS: AGENCIES AND ARGUMENTS

Standing Strategies for Securing Budgets

Find, Serve, and Use a Clientele for the Services You Perform

Establish Confidence in the Mind of the Reviewer That You Can Carry Out the  
Complicated Program (Which He or She Seldom Understands) Efficiently and  
Effectively

Capitalize on the Fragmentary Budgetary Review Process

Opportunistic Tactics for Securing Budgets

Guard Against Cuts in Old Programs

Inch Ahead with Old Programs

Add New Programs

### LEGISLATING BUDGETS

Congress and Budgets: Precedents

The Congressional Budget and Impoundment Control Act of 1974

Comprehensive Budget Committees

Concurrent Budget Resolutions

Reconciliation

A Budget-Making Timetable

Improved Spending Controls

The Congressional Budget Office

Congress Gets Into the Act

The Demise of Concurrent Budget Resolutions and Reconciliation

A Tardy and Terrible Timetable

From Incrementalism to Economic Forecasting

Budget Brawls

The Rise of the Office of Management and Budget

Legislating Budgets at the Grass Roots Level

Forecasting at the Grass Roots: Briefer but Better

Tensions, but No Meltdowns

A Withering of the Governors' Budget-Making Powers?

The Rise of State Budget Offices

### KEY CONCEPTS/TERMS

public finance

revenue

expenditures

outlays

general fund

general purpose revenue

general revenue

general fund expenditures

discretionary spending  
general tax  
special funds  
user fees  
entitlements  
relatively uncontrollable outlays  
mandatory and related programs  
other-than-general revenue  
insurance trusts  
charges  
customer payments  
special-purpose governments  
general-purpose governments  
municipal bond  
general obligation bonds  
revenue bonds  
grants-in-aid  
personal income tax  
individual income tax  
social insurance and retirement receipts  
insurance contributions  
corporate income tax  
excise tax  
payments for individuals  
intergovernmental revenue  
own source revenue  
sales tax  
pass-through grants  
property tax  
efficiency costs  
simplicity  
transparency  
administrability  
equity  
progressive income tax  
proportional income tax  
flat tax  
regressive income tax  
compulsory payroll tax  
national retail sales tax  
value-added tax  
circuit breaker  
homestead exemptions  
money supply  
supply-side economics  
fiscal policy



monetary policy  
open-market operations  
discount rate  
federal funds rate  
reserve requirement  
line-item veto  
rescission  
off-budget entities  
deficit  
debt  
gross federal debt  
public debt  
budget  
line-item budget  
consolidated executive budget  
objects-of-expenditure budget  
program/performance budget  
program budget  
performance budget  
planning-programming-budgeting (PPB)  
PPB System  
budgeting-by-objectives (BBO)  
management-by-objectives (MBO)  
zero base budgeting (ZBB)  
target base budgeting (TBB)  
fixed-ceiling budgeting  
top-down budgeting  
cutback management  
hiring freeze  
undifferentiated budget cuts  
across-the-board budget cuts  
alternative methods of service delivery  
budgeting for results  
results budgeting  
mission budgeting  
entrepreneurial budgeting  
performance-based budgeting  
standing strategies  
opportunistic tactics  
Congressional Budget Act  
Congressional Budget Office (CBO)  
deeming resolution  
continuing resolution  
forecasting