

CHAPTER 12

Public Budgeting: The Concept of Budgeting as Political Choice

The essence of budgeting is that it allocates scarce resources and hence implies choice between potential objects of expenditure. Budgeting implies balance and it requires some kind of decision-making process.

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READING 12

Introduction

Budgets serve many important functions in government. In one sense, budgets are contracts annually agreed on by the executive and legislative branches that allow executive agencies and departments to raise and spend public funds in specified ways for the coming fiscal year (normally running in state and local governments from July 1 to June 30; changed at the federal level by the Congressional Budget Act of 1974 to end on September 30 and to begin October 1 each year). A budget imposes a mutual set of legal obligations between the elected and appointed officers of public organizations with regard to taxation and expenditure policies. A budget is, therefore, a legal contract that provides a vehicle for fiscal controls over subordinate units of government by the politically elected representatives of the people.

Budgets have other purposes as well: they can be planning devices used to translate presently scarce fiscal and human resources in the public sector into future governmental goals and programs. In this respect, budgets are vital instruments for directing what tasks government will perform and how human talent in society and public monies will be used.

In addition, budgets are forces for internal coordination and efficiency in public administration. Budget formulations annually impose choices concerning how public programs should be undertaken, interrelated, and measured in terms of their value, effectiveness, and worth to the general public. Related to the concept of budgets as a coordinating device is the idea that budgets are economic documents. In this role federal budgets are tools of fiscal policy, for they stimulate or slow down national economic growth through increased or decreased taxation or revenue expenditures. Finally, budgets can also be viewed as political documents, reflecting through the allocation of funds the ultimate desires, interests, and power of various groups within the body politic as expressed by elected legislative

disadvantages of both ways of conceptualizing budgets? Do these perspectives on budgets relate to any of our earlier readings such as Charles Lindblom's "incremental decision-making model"?

Why does Rubin focus on understanding modern budgetary processes as "separate but linked decision clusters"? What are the major clusters of issues apparent in each?

The Politics of Public Budgets

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Public budgets describe what governments do by listing how governments spend money. A budget links tasks to be performed with the amount of resources necessary to accomplish those tasks, ensuring that money will be available to wage war, provide housing, or maintain streets. Budgets limit expenditures to the revenues available, to ensure balance and prevent overspending. Most of the work in drawing up a budget is technical, estimating how much it will cost to feed a thousand shut-ins with a Meals on Wheels program or how much revenue will be produced from a 1 percent tax on retail sales. But public budgets are not merely technical managerial documents; they are also intrinsically and irreducibly political.

- Budgets reflect choices about what government will and will not do. They reflect general public consensus about what kinds of services governments should provide and what citizens are entitled to as members of society. Should government provide services that the private sector could provide, such as water, electricity, transportation, and housing? Do all citizens have a guarantee of health care, regardless of ability to pay? Are all insured against hunger? Are they entitled to some kind of housing?
- Budgets reflect priorities—between police and flood control, day care and defense, the North-

east and the Southwest. The budget process mediates between groups and individuals who want different things from government and determines who gets what. These decisions may influence whether the poor get job training or the police get riot training, both as a response to an increased number of unemployed.

- Budgets reflect the relative proportion of decisions made for local and constituency purposes, and for efficiency, effectiveness, and broader public goals. Budgets reflect the degree of importance legislators put on satisfying their constituents and the legislators' willingness to listen to interest-group demands. For example, the Defense Department may decide to spend more money to keep a military base open because the local economy depends on it and to spend less money to improve combat readiness.
- Budgets provide a powerful tool of accountability to citizens who want to know how the government is spending their money and if government has generally followed their preferences. Budgeting links citizen preferences and governmental outcomes.
- Budgets reflect citizens' preferences for different forms of taxation and different levels of taxation, as well as the ability of specific groups of taxpayers to shift tax burdens to others. The budget reflects the degree to which the government redistributes wealth upward or downward through the tax system.

From *The Politics of Public Budgeting* by Irene S. Rubin (Chatham, N.J.: Chatham House Publishers, 1990), pp. 1–28. Reprinted by permission of Chatham House Publishers.

Or, in the public sector, how do I compare the benefits of providing shelters for the homeless with buying more helicopters for the navy? I may then move to more general comparisons, such as how clearly were the requests made and the benefits spelled out; who got the benefits last time and whose turn is it this time; are there any specific contingencies that make one choice more likely than the other? For example, will we be embarrassed to show our treatment of the homeless in front of a visiting dignitary? Or, are disarmament negotiations coming up in which we need to display strength or make a symbolic gesture of restraint? Comparing dissimilar items may require a list of priorities. It may be possible to do two or more important things if they are sequenced properly.

Budgeting often allocates money, but it can allocate any scarce resource, for example, time. A student may choose between studying for an exam or playing softball and drinking beer afterward. In this example, it is time that is at a premium, not money. Or it could be medical skills that are in short supply, or expensive equipment, or apartment space, or water.

Government programs often involve a choice of resources and sometimes involve combinations of resources, each of which has different characteristics. For example, some federal farm programs involve direct cash payments plus loans at below-market interest rates, and welfare programs often involve dollar payments plus food stamps, which allow recipients to pay less for food. Federal budgets often assign agencies money, personnel, and sometimes borrowing authority, three different kinds of resources.

Balancing and Borrowing

Budgets have to balance. A plan for expenditures that pays no attention to ensuring that revenues cover expenditures is not a budget. That may sound odd in view of huge federal deficits, but a budget may technically be balanced by borrowing. Balance means only that outgo is matched or exceeded by income. The borrowing, of course, has to be paid off. Borrowing means spending more now and paying more in the future in order to maintain balance. It is a balance over time.

To illustrate the nature of budget balance, consider me as shopper again. Suppose I spend all my weekly

shopping money before I buy my dessert. I have the option of treating my dollar limit as if it were more flexible, by adding the dimension of time. I can buy the dessert and everything else in the basket, going over my budget, and then eat less at the end of the month. Or I can pay the bill with a credit card, assuming I will have more money in the future with which to pay off the bill when it comes due. The possibility of borrowing against the future is part of most budget choices.

Process

Budgeting cannot proceed without some kind of decision process. Even in the simplest cases of budgeting, there has to be some limit set to spending, some order of decision making, some way to structure comparisons among alternatives, and some way to compare choices. Budget processes also regulate the flow of decisions so they are made in a timely manner.

Back to my shopping example: If I shop for the main course first, and spend more money than I intended on it because I found some fresh fish, there will be less money left for purchasing the dessert. Hence, unless I set a firm limit on the amount of money to spend for each segment of the meal, the order in which I do the purchasing counts. Of course, if I get to the end of my shopping and do not have enough money left for dessert, I can put back some of the items already in the cart and squeeze out enough money for dessert.

Governmental budgeting is also concerned with procedures for managing tradeoffs between large categories of spending. Budgeters may determine the relative importance of each category first, attaching a dollar level in proportion to the assigned importance, or they may allow purchasing in each area to go on independently, later reworking the choices until the balance between the parts is acceptable.

The order of decisions is important in another sense. I can determine how much money I am likely to have first and then set that as an absolute limit on expenditures, or I can determine what I must have, what I wish to have, and what I need to set aside for emergencies and then go out and try to find enough money to cover some or all of those expenditures.