Budget Theory and Budget Practice: How Good the Fit?

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Theory in budgeting, like much of public administration, has been of two kinds, descriptive and normative. Descriptive theory is based on close observation or participation in public sector activities. Theorists describe trends, sequences of events, and infer causes, paying attention to local variations as well as uniformities across cases. Normative theory—advice—may be based on a much narrower range of observations than descriptive theory and its proposed solutions may be based on values rather than observations. If the explanatory power of the descriptive theory is too weak, or if the advice of normative theory is not adopted by public officials or is adopted and abandoned because it does not work, the gap between theory and practice may become unacceptably wide.

An examination of the gap between budget theory and practice requires separate examination of the success over time of normative and descriptive budget theory. This article is therefore divided into two parts, one on normative theory and one on descriptive theory. In each part, the past, present and likely future of the relationship between theory and practice is outlined. Where the analysis indicates deterioration of the relationship, suggestions are made on how the relationship might be improved.

The Content of Normative Budget Theory

Normative budget theory dates back at least to the turn of the century. Lively budgeting debates took up whole issues of journals in a variety of social science disciplines. The practical advice reformers gave about accounting and budget exhibits was supported by a theory of government and the way budgeting relates to the state. Individual theorists differed on particulars, but the executive budget reform proposals were generally based on a federalist model of government. Reformers looked longingly back at Hamilton's financial authority and across at the political systems of England, Switzerland and Germany. They wanted a stronger, more independent executive, more like the Prime Minister in a parliamentary form of government, and less role for parties and party caucuses; generally they sought a smaller role for legislators. Their concern for the growth of government spending often led them to recommend that the legislature in general, and Congress in particular, give up the option of increasing executive-branch recommendations of the executive. These proposals led to debate on the role of the budget process in a democracy.

While many reformers were concerned to limit the growth of government and the access of special interests, it mattered to them how it was to be done. They looked at the evolution of line-item controls that legislative bodies had devised to control machines, especially in New York City, and they argued that although effective in achieving their purpose, they hamstrung the executive and created less efficient government. It was not only spending control the reformers were after, but efficient government. They specifically rejected line item budgets and detailed appropriations in favor of lump sum appropriations that allowed better management.

The program for achieving the reformers' goals included not only the expansion of the power of the executive to formulate policy and review proposals but also new budget formats to convey decision-making information about programs to the legislature and the public for their review. Public accountability was an important theme in this

This article describes the past and present and projects the future of the relationship between theory and practice for both normative and descriptive budget theory. It argues that budgeters have underestimated the successes. The present and future of normative theory look gloomy without major fresh ideas because the world of budgeting has changed and many traditional reform ideas have out-lived their usefulness. Descriptive theory has traditionally been weaker, but it has improved in recent years and will probably do well in the near future.
reform literature, and it could only be achieved by improving the quality of budget information and publicizing that information. The public as well as the legislature should understand what the government was doing and how much it was spending to achieve particular goals.

These reformers did not argue that new services should not be included in the budget, only that the cost for doing so should be the lowest possible commensurate with the quality of services demanded. They therefore advocated cost accounting (with its program budgeting implications) and detailed performance budgets based on unit costs. The assumption was that when such information was made public, there would be an outcry if one city's park services cost much more than another's.5

The budget reformers at the turn of the century also emphasized the role of planning in the budget. They argued that budgets must contain a work plan and provide funding for future as well as current needs. Some of the reformers went further and argued that budget planning was a way of finding and responding to unmet needs in the community. Otho Cartwright, for example, argued that he would go further than his fellow budget advocates in arguing for a state law that would provide the means to ask the public what its needs were. He argued that members of the public should be allowed to present their case to the proper government authority. He envisioned civic societies that would advocate particular policies, such as more industrial safeguards or better sanitation in the schoolhouses.6

While there was considerable variation in the scope of planning advocated by the early reformers, they agreed that planning was inherent in budgeting. Some of the reformers explicitly linked city planning and budgeting, arguing that poor planning for growth and inadequate sewers, streets, and tunnels cost more money in the end and were inefficient. They implied that a vision of the future city, which would bring order out of chaos, had to be linked to the budget and plans for capital and service spending.7

Budget planning meant at the least choosing particular target levels of service by activity and figuring out in advance what it would cost in personnel and supplies to accomplish those specific goals. The reformers rejected a model of budgeting that allowed the departments to ask for what they wanted instead of requesting what they needed to accomplish particular tasks. They were convinced that there was much waste in government and that expenditures could be cut back without losing much in the way of services. They did not think that changes could be implemented only at the margins. They told stories of cutting departmental budgets in half while improving services.8

Paralleling these early budget reformers were the public economists, who advocated some of the same kinds of reforms, but from a different theoretical perspective. While the budget reformers emphasized both the need to run government like a business and the constitutional basis for their reforms, the public economists based their arguments on what they perceived as rational choices and optimization of decision making. Both groups emphasized the need to get the most from each dollar, but the public economists were less concerned with cost accounting and management and more concerned with choices between options, laying out the options carefully and choosing between them on carefully specified grounds.

Over the years, many specific budget reforms have been formulated and advocated, then adopted, rejected, or modified. Many of these reforms have the same goals or purposes as those of the reformers of the early 1900s. Program budgeting, for example, and its explanation of what government is trying to accomplish at what cost, addresses specific concerns raised by the early reformers; the linking of planning to programming in the Planning Programming, Budgeting System (PPBS) was also foreshadowed many years earlier. Performance budgets, with their varied emphasis on measuring demands and workloads or efficiency and unit costs, also reflect earlier concerns. The idea of determining desired service levels, associating costs with each one, and budgeting for only desired levels of service is the heart of Zero-Based Budgeting (ZBB) and Target-Based Budgets, but it was also part of the early reformers' attempts to judge what was needed versus what was wanted and to get out of the budget waste that had accumulated over the years. Current models of budgeting for outcomes perfectly express the activist, efficiency, and accountability goals of the early reformers. Management by objectives links the specific annual goals of the city to work loads and the personnel evaluation system, an elaboration of the old reformers' goals.

Normative Theory and Practice

How successful has this normative theory and its specific offspring been? Evaluations of budget reforms, both specifically and generically, have often been negative. The reformers urged wide public participation in budgeting, with open hearings, advertisements, public presentation of budget exhibits, and budgets that were explanatory to the average person. Such participation was either short lived or did not materialize. Calls for a consolidated budget that explained to the public the range of programs and types of spending have dimmed in the face of continuing fragmentation, multiyear budgets, off-budget accounts, and different types of spending. Specific reforms, such as Management by Objectives (MBO), PPB, and ZBB have been evaluated and declared to be failures.9

More generally, the incrementalists argued that many reforms required comprehensive evaluation of programs and specific delineation of spending for specific purposes, which would have negative effects. A great number of programs could not be compared at one time, and the effects of making spending clearer would undoubtedly be more conflict. They disapproved of the idea of bringing the public more into the budgeting process for fear of increased and conflicting demands. They argued that budgeting should not be reformed.10
A review of the literature suggests that budgeters have underestimated the success of normative theory for a variety of reasons. One reason is that once a reform has been widely adopted, people tend to forget the role of normative theory in bringing the changes about. The federal government, most of the states, and nearly all cities with over 10,000 population have adopted the executive-budget model. Other kinds of recommendations, such as keeping enterprise funds separate, setting rates for public enterprises so as not to make a profit, and using the modified accrual basis of accounting have become accepted budgetary practices. The distinction between the detailed budget presentation of the President to Congress and the lump sum appropriation of Congress in its approved budget was suggested by the budget reformers, and it has been the dominant pattern in the federal government for many years. The idea that budgets should be tools for public accountability, and therefore should be easy to read, has been widely accepted and often inventively implemented.11

Even more recent and controversial recommendations for budget reform like zero-based budgeting, program budgeting, management by objectives, and performance budgeting have been far more successful than many people in public administration have thought. Some studies suggested that many budget reforms were fads that had few or no lasting effects; in some cases they changed the budget formats but not the decision making.12

Some of the most discouraging of the evaluations have been at the federal level. But there is only one federal government, it is highly complex and unusual, and it is not typical of the states or local governments or of public budgeting in general. Historically, state and local governments have often innovated first and successfully, and then the innovation has spread to the federal government. That such innovation should be judged essentially by what happens in the federal government seems unjustifiable. Budget innovations have been much more widely adopted and implemented at state and local levels, especially in the past decade.

Other reasons that success with normative budgeting has been underestimated are that evaluators looked too quickly to find consequences and tried to find the innovation in the exact form in which it was introduced. "The absorptive character of government, gradually adapting and incrementally augmenting its activities, suggests that change may more easily be measured on a time scale congenial to a forester or a geologist than to a Congress or a White House in a hurry."13 Many of the innovations were clumsy when introduced, so that public administrators adopted and then adapted them, piecing together parts of reforms that suited their environments. Consequently, if one looked right away for the impacts of a specific budget innovation, one was likely to see fumbling implementation or even evasion of key provisions, but if one looked a decade or more later, one was likely to see a blending of pieces of different reforms that were functioning well in some places.

The reforms were often oversold, leading to the inevitable claim that they could not deliver. "In order for major reform legislation to become law, exaggerated claims are made for its future performance."14 If one claims that a budget reform will reduce the federal deficit and the federal deficit remains, the reform appears to have failed, even if a variety of more modest improvements were made. Evaluations that examine the evolution of goals over time and evaluate outcomes on a scale of achievement have found budget innovations moderately successful.15

Normative Theory and Practice on the State and Local Levels

At the municipal level in the United States, many proposed budget reforms have been adopted in whole or in part and have been adapted to the needs and capacities of the local communities. Sometimes it has taken cities many years to implement the changes because they did not have the necessary information base, accounting system, or staff time. Sometimes the reform has been interrupted or delayed, or even lost, but budget changes can occur gradually. The direction of the change is obvious when looked at over the period of a decade or more.

One study of a national sample of cities compared a 1976 International City Management Association survey with a study using the same survey instrument in 1982 and 1983. Over that time period, the change in reported budget sophistication was dramatic. The use of program, zero base, or target budgeting had increased from 50 percent to 77 percent of the sample; the use of MBO increased from 41 percent to 59 percent; and performance monitoring was up from 28 percent to 68 percent. About two thirds of the sample reported they used program budgeting, while a third reported using either ZBB or Target-Based Budgeting, which is a form of ZBB. The number of cities reporting that they had tried and dropped these innovations was not negligible, but it was still quite low. Reports of effectiveness varied by specific technique, but the ones which reported the most widespread adoption, such as program budgeting, were considered effective by about 44 percent of the respondents. Only performance measurement among the widely adopted tools got generally low ratings for effectiveness.16

A more recent study looked at the same budget practices in 1987 and found little additional use of these techniques but considerable stability in the numbers of users. The authors concluded that these tools "have become staples rather than fads in public management."17 All of these studies do not include very small cities and so exaggerate somewhat the overall rate of usage. Still for cities with over 25,000 in population, the use of these tools remains high and constant.

Cross-sectional studies on self-reported data are useful, especially when done at intervals with the same instrument, but they leave one wondering what those who reported them meant ZBB or MBO. Did it mean that the
city went through all the information gathering and analysis implied in the process or that a vague statement of goals was added to the budget before each program? Nor is it clear from these studies if cities are gradually adding to existing reforms in a logical way so that one builds on the next or if they are modifying existing practices to be less threatening or more effective. To answer some of these questions, a mini-panel study was designed, looking at the budgets of 15 cities across the country over approximately 10 years, from about 1977 to about 1987. The smallest of the cities was about 40,000 population.18

Briefly, the results confirm the cross sectional data. In 1977 nine cities out of the 15 had relatively straightforward line-item budgets; ten years later, only five cities had straight line item budgets. There was increasing use of some form of performance measures, although the definition and measures of performance were not stable either across departments or across time. The use of ZBB or Target-Based Budgeting was low but stable: two out of the fifteen used zero based or target based budgeting at the beginning and at the end of the period. The most dramatic change was in MBO. In 1977 none of the cities used this technique as part of the budget format, but by 1987, four of the 15 were using it. From the budgets themselves it appears that some of the cities were using the formats more seriously as part of their decision-making process than others. And some cities included a variety of formats not specifically named.

To get a sense of smaller cities and the most recent data, 12 municipal budgets from suburban Dupage County, Illinois were examined. Sizes ranged from 6,700 to 90,000 population. One had no real budget (which is legal under Illinois law), six had straight line-item budgets, the others had some combination of program budgets with goals and objectives statements, or program budgets with MBO and performance measures. Cities of 14,000 and smaller population were much more likely to have straight line-item budgets. This is not really surprising, as their municipal operations are likely to be much simpler, and staff and council are much more likely to know each other and the programs intimately without the help of management controls and informative budgets.

It is clear from reading these budgets that in most cases the budget process itself has changed, not only the format. For example, in Hanover Park, a village of about 32,000 population, the President and the Board of Trustees first set forth their goals for the year, and then the departments' objectives are set and supporting goals are established. The process lasts over six months. In the budgets, the departments and boards list their previous year's objectives, which ones they obtained on time and which ones are still ongoing, and then describe their objectives for the next budget year. In Bensenville, population about 16,000, the budget introduction lists the goals and objectives for the city for the upcoming year: these include both potential service expansions and possible mergers and reorganizations of service delivery. The year's tasks include an evaluation of a neighborhood survey of citizen satisfaction with services and redesign of the city's handling of complaints. Each department lists concrete and extensive objectives and goals in the budget.

The most dramatic of the budgets from Dupage County is that of Downers Grove, population about 43,000. That budget combines program budgeting, line-item controls, and an MBO system. The system was developed over more than a decade. It has been combined with a five-year financial plan to create what the manager calls "results budgeting." The five-year plan is an integrated long-range operating budget and capital improvement plan. It describes where the city is headed and what the financial requirements will be. Portions of the plan appear in the annual budget. The City Manager, Kurt Bressner, argues, "The importance of integrating the MBO system into the budget cannot be overstated. Through this step, the desired results are directly linked to the resources necessary to achieve them." This is exactly what the budget reformers of the early 1990s were trying to achieve. Many cities have pieces of this integrated system, and they seem to be moving in this direction, even though they do not have it all assembled yet.

This is not to say that no simple line-item budgets exist out there. Commission cities, of which only a few remain in the whole country, tend to budget in a line-item and highly decentralized fashion, but as an outdated and largely abandoned reform, commission cities are not typical of future trends. Small cities, counties, and some rural cities still budget with simple line items with no explanation, but they probably do not need much more sophistication.

The response of state governments has been similar to that of the cities. More than half the states make use of program budgets, performance reporting and monitoring, program analysis, program evaluation, and forward year projections of revenue and expenditure. Seventy-four percent of the states report using program budgeting; 38 percent of the users report that it is highly effective, and 62 percent report that it is somewhat effective. ZBB is used by fewer states, 20 as opposed to 37 that use program budgeting, but the proportion of those reporting effectiveness is about the same. Performance monitoring is fairly widespread, but a lower percentage of states that report such monitoring consider it highly successful. Nevertheless, a high proportion consider it somewhat effective. Most of these budget innovations have been hybridized and adapted, using parts of some and parts of other reforms.20

What is equally interesting are the reforms that now seem to represent the state of the art. Increasingly, planning is merging with budgeting. The result is multiyear budgeting, which is not just a projection of budget numbers but a corporate plan which includes statements of policy, underlying assumptions, and goals for the community.22 In drawing up the plans, consideration is given to unmet needs, changes in the community, anticipated growth, and changing technology. Perhaps more common in rapidly growing and changing communities, these plans are the local adaptations of PPBS, home grown, to fit the local need. Even when no corporate long-term plan exists, there is often a capital long-term
plan with the explicit goal of creating a preapproved list of priorities in which the first year of the plan pops out as a section of the next year's budget.

The recent integration of MBO with the budget implies that goal setting, personnel evaluation, work loads, and budget are being integrated in some budgets. The program manager in essence promises to do so much work and gets so much budget to do it. When integrated with the budget, this work load data gives the citizen a good look at exactly what his or her money is doing. MBO has the advantage of linking the budget with the personnel evaluation system, and hence it is more than a plan or report.

What budget reform has not yet generally achieved at the local level is good cost accounting and good performance budgeting. Cost accounting has sometimes become political. When a particular service is sorted out for a cost analysis, council members may view the service as too expensive and try to use cost accounting to make it politically vulnerable. Or a manager may try to make a program look less expensive through cost accounting to defend it from its detractors. Cost accounting does not have the appearance of a neutral skill that can help save money. With respect to performance measures, departments have resisted what appears to them to be unfair evaluations. The department heads often fear, with some justification, that low efficiency ratings will be blamed on them and the council will take away resources from them in a misguided effort to increase efficiency. Since departments seldom have complete control over what are viewed as departmental outcomes—such as dollar losses for fires—department heads fear that they will be blamed for such things as a rash of arson fires, regardless of the quality of their work. Nevertheless, some elements of performance budgeting have crept into municipal budgets, even if they are not yet working to everyone's satisfaction.

In short, contemporary budgeting at the state and local levels reflects many of the practices recommended by budget theory, and it continues to evolve. Public administration has clearly been successful in proposing reforms that are attractive to practitioners when those reforms have appeared to have the capacity to solve budgetary problems. The reforms have not always worked to everyone's satisfaction, but the relation between normative budget theory and budget practice has been close, especially at state and local levels.

Normative Theory and Practice at the Federal Level

In recent years the record at the federal level has not been as strong. Budget reformers had a major hand in designing the executive budget process in 1921, and reform ideas were evident in the redesign of congressional budgeting in 1974. But reform ideas played little role in the 1985 deficit reduction act known as Gramm-Rudman-Hollings.

The 1974 reform emphasized the role of professional budget staff to enable Congress to have sufficient information to make budget decisions. It also emphasized the importance of having overall budget targets and ways of setting and enforcing budget priorities. These were two persistent themes in the reform literature.

By contrast, the Gramm-Rudman-Hollings deficit reduction act set up a variety of across-the-board cuts—with many of the most popular entitlement programs exempted—that would automatically be invoked if the normal budget process could not achieve a specified target for deficit reduction. Where previous budget reforms had tried to include entitlement programs to bring them into budget scrutiny and to make them part of budget tradeoffs, Gramm-Rudman-Hollings exempted them; where previous budget reforms had striven to make thoughtful comparisons among competing programs, Gramm-Rudman-Hollings cut across the board.

The Gramm-Rudman-Hollings deficit reduction law was often referred to as a bad idea whose time had come. The reported intent of the law was to make the mandatory cuts so distasteful to both Democrats and Republicans that they would join together to make a proper budget that would reduce the deficit below the trigger level for the automatic cuts. Instead, the law has worked to enhance the incentives to make deficits look smaller than they are (to get below the trigger level) by using "smoke and mirrors." Senator James Exon has argued, "Rather than force action, the Gramm-Rudman process fakes action....After two years of operation, Gramm-Rudman has not worked."

It was not just Gramm-Rudman-Hollings that suggested that normative theory was not working at the federal level; many other budget reform proposals of the past few decades have not worked well at the federal level. Part of the reason seems to be the size and complexity of the federal government. Putting together a citywide list of priorities coming from a half dozen or even a dozen city departments is a massive task but not an impossible undertaking. Putting together a priority list of programs in one department of the complexity of the federal Health and Human Services without an agreed upon set of criteria for such a ranking may well be impossible or so difficult as to overwhelm any advantage the process might have produced.

Another problem has been that reform proposals have not kept up well with the increased complexity of the federal budget over the years.

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explicit comparison between major categories of spending, but the reality of federal budgeting today is multiple budgets, and parts of the budget are multiyear.25 More important, some compelling reasons exist for the increased complexity, and it is not likely to go away any time soon. The result is that many old reform proposals no longer make much sense.

Other reform proposals have been taken as far as they usefully can be taken. For years, the reform proposal for assuring balanced budgets was increasingly to strengthen the power of the chief executive over the budget. In the states, for example, the governors have been given stronger and stronger budget vetoes. But the reform has probably already gone too far, contributing to an atrophy of legislatures, and the trend for the past 10 to 20 years has been back in the other direction, to give legislatures more balanced responsibilities over budget matters.26 It has become increasingly clear that legislatures are not necessarily more profligate than governors and that Congress is not historically more likely to spend than the President.27 Some executives are more prone to spending, and some legislatures are more prone to spending. A reform that purports to control spending by giving the executive more and legislatures less spending power seems wrong-headed.28

Part of the problem of the recent failure of budget reform at the federal level has been the focus on trying to reduce the size of the deficit through reforming budget processes or legislating discipline. A budget reform can help carry out the goals of politicians once they have made up their minds, but it cannot make up their minds. Public administration may have been asking budget reform to do the impossible.

Some of the increasing complexity of the budget that has made federal reforms so difficult has affected state and local levels as well. Capital projects may sprawl across years. Budgets at all levels are likely to contain a variety of resources, including loan guarantees, loans and revolving funds, contracts, insurance, grants, subsidies, and direct service delivery. The problems of exaggerated executive budget power are more extreme at the state and local level than they are at the national level. As a result, many traditional bits of reform advice are becoming less relevant at all levels of government.

Improving the Relationship Between Normative Theory and Practice

How can the relationship of normative budget theory and practice be improved in the coming years? First, a better understanding is needed of what the budget process and format can and cannot do so that reform proposals will be realistic. Greater clarity is required about the difference between being idealistic, asking for budgets to be completely transparent, for example, and suggesting budget reforms as solutions to broader problems that such reforms may influence only marginally. The former is an important part of public administration; the latter at best makes budget reform look impotent, and at worst, detracts attention from more likely solutions.

Second, reconsideration is needed to what accountability means and how to achieve it in budgets that allocate multiple resources on a multiple year basis. For example, what does "consolidated" mean in such a budget? One does not want to add tax expenditures to outlays—they are different kinds of numbers and they do not meaningfully add. One does not want to include the balances in trust funds to offset the deficit, as the United States government now does, when those funds can never be spent to reduce that deficit. So some parts of the budget should remain separate; full consolidation in the context of different types of expenditures and expenditure restrictions should not be a goal.

However, openness and clarity of presentation are more urgent in this context of multiyear and multisource budgets than they were when budgets were simpler. The completeness of the budget takes on increasing importance. Are the costs of tax breaks adequately represented? How are the costs of loans presented? Are various subsidies reported? How? What about the shifting of costs through regulation of the economy? How are unfunded liabilities being reported, where, and with what accuracy? In short, what is not in the budget that should be? This avenue of budget reform needs to be continued and applied more widely at state and local levels.

The appropriate level of budgetary secrecy must be reexamined. Openness of budget decision making to the public also opens the budget process to interest groups; is that an adequate argument for closing budget decisions? To what extent have procedures been created or endorsed to close deliberations to the public and press while still keeping them open to interest groups? One could argue, for example, that the federal black budget for security agencies is a secret only from the American public and not from foreign powers. Can budget processes be prescribed that buffer decision makers somewhat from interest groups and still keep them open and accountable to the public?

What level of secrecy is justified and at what potential and actual cost? The tendency has been to create budget systems that are closed on the executive side and open on the legislative side; as budget power has shifted overwhelmingly toward the executive branch, what has been the impact on public accountability and democratic government? Is the trend toward greater balance between the legislature and the executive gradually solving the problem of accountability, or is the legislature going to become more isolated or insulated as it regains more budget power?

Third, indicators are needed to give early warning when various processes or interests are getting out of balance, with potentially serious and unwanted consequences on the budget. Perhaps indicators need to flash a warning when the budget estimates have become too rosy. Governments need to avoid the extremes of centralization or decentralization, of executive or legislative dominance, of openness and secrecy. Perhaps a need exists to measure and monitor the swings, to give early warning of needed adjustments. It would also be useful to monitor the budget
process itself for signs of excessive strain and potential future collapse. How much stress can the process take? How much delay is too much? What does failure of the budget process look like?

Fourth, balance needs to be struck between precontrols and postcontrols in budget implementation. How effective have various measures to evaluate programs been with respect to the budget? Are program audits or even financial audits used in the preparation of new budgets? Is there a way to make such audits more useful, more accessible to more people? Varied controls are at governments’ disposal now, but how many are too many? Budget practice is alert to the possibility of giving agencies too much autonomy, but how should governments guard against the inefficiencies of giving them too little? This was a problem that bothered the early reformers, but normative budgeting has not yet worked out a good set of answers.

If ways can be recommended to improve accountability in complex budgets, the link between taxpayers and public decision makers can be strengthened. If ways can be recommended to public officials to explain what they are doing and how well they are doing it, perhaps the anti-government flavor of tax revolts can be moderated. The match between theory and practice may also be improved if budgeters learn to give conditional rather than absolute advice. It is necessary to learn when particular reforms are likely to work and when they have outlived their usefulness. If reform can be reconceptualized, reaching for a new set of ideals beyond reducing the deficit and even beyond traditional goals of increased efficiency and fiscal control, budgeters will have a better chance of affecting the future of budget practice.

The Historical Linkage Between Descriptive Theory and Practice

If, in normative theory, budgeters were more successful than they knew, in descriptive theory, scholarly evaluation may have been overly optimistic. Incrementalism, which was intended not only as a normative theory but also as a descriptive theory, was dominant and in many ways inadequate. It prevented many budgeters from seeing the changing budget reality in front of them and theorizing about it. As a result, theory and practice grew unacceptably far apart.

At the national level, Aaron Wildavsky’s well known study, The Politics of the Budgetary Process, emphasized the role of agencies in the budget process, assumed their desire for growth, and discussed their strategies in dealing with the congressional review process, especially the appropriations committees. That book came out in 1964 and was updated at intervals until 1984. The author gave up the framework and wrote a new book, The New Politics of the Budgetary Process, published in 1988. Two years after Wildavsky’s 1964 book, Richard Fenno’s blockbuster, The Power of the Purse: Appropriations Politics in Congress, was published. This book is still treated as a classic, and together they framed the incrementalist assumptions about budgeting at the national level. They emphasized the centrality of a legislatively dominated budget, the importance of agencies in the process, the decentralization of the process, and the lack of comparison between alternatives for spending. The incrementalist model argued that no major changes in budgets from year to year and hence that few choices of policy consequence were being made in the context of the budget.

These assumptions may have seemed more descriptive in the 1960s than later, but even then they left major elements out of the picture. The entitlement programs had been created during the Great Depression of the 1930s, the U.S. Office of Management and Budget (OMB) had become an office in the Executive Office of the President in 1939; and Presidents had certainly taken on policy roles in budget formation from time to time. But the incrementalist model left out these features, and others did not fill in the blanks for years.

At the state level, Thomas Anton wrote a detailed case study of budgeting in Illinois, published in 1966, describing the role of all the major budget actors and concluding that no one, not even the governor, had much policy input. He described the budget process as relatively unchanging, despite the recent evolution of budgeting before the period of his study. Budgeting continued to change dramatically after his study. By 1970, the governor had a centralized office of budgeting, which became a major tool in imposing the governor’s priorities on the budget, and the revised state constitution gave the governor a reduction veto, increasing his power over the budget enormously. But Anton never revised the study, and no one else wrote as comprehensive a study of state budget politics in Illinois. The 1960s and 1970s were periods of major change and reform in state budgeting, but the incrementalists seemed to ignore most of it.

At the local level, Arnold Meltsner did one of the Oakland, California, studies on the politics of local revenue, published in 1971. This study described Oakland as having little autonomy over taxes and being constrained by public opposition to taxes that resulted in fragmented revenues and low property taxes. He described the citizens as being generally uninterested in government, and he concluded that budgeting presented few policy issues for public reaction. Though he undoubtedly captured some element of revenue processes common at the local level, he missed many of them and perhaps inadvertently suggested that what he said about Oakland was typical of other cities across time.

These studies were followed for many years with quantitative studies of budgetary outcomes that seemed to reaff-
firms that budgets changed little and did not involve policy choices. These models focused attention on the difference between last year's budget and this year's and the size of the increment for different departments or programs. They made assumptions about the definition of the base budget, because the theory divided all budgets into unquestioned bases and sometimes superficially examined increments. Zero-based budgets and in fact any kind of budget tradeoffs were explicitly rejected by the incremental modelers. Even those who wished to disprove the incrementalists' assumptions and conclusions followed the incrementalists' hypotheses in order to disprove them.

Though there have always been a few dissenters, incrementalist theory dominated budgeting literature for close to two decades, and it focused attention away from phenomena that did not fit the theory. Only when something dramatic happened, such as a constitutional crisis or a major reform, did attention shift to describing what had happened.

For example, incrementalism postulates a decentralized budget process, which focused attention away from the actual level of centralization and coordination of the budget process. Congressional budget reforms in 1974 eventually forced attention to the issue, but those focusing on it had to work outside the theory of incrementalism. It was not until 1980 that Allen Schick's (nonincrementalist) comprehensive description of the causes and functioning of the 1974 Budget and Impoundment Control Act was published. That study brought home a fact that should have been obvious much sooner, that the level of centralization of budget processes varies, and that theory needs to describe and explain that variation.

Due to the incrementalist model, budgeters did not focus for many years on the role of the budget office as a policy formulator. Incrementalism argued that budgeting does not really deal with policy, that policy is dealt with somewhere else. The changing role of OMB at the national level ultimately forced attention on the issue, but theory did not direct attention there.

Incrementalism assumes that moderate revenue growth will create a positive increment to be distributed among the departments and agencies. It did not deal with the possibility of frozen or declining revenues. The deep recession of 1974-1975, Proposition 13 in California, and expansion of the tax limitation movement in the later 1970s culminated in major federal cuts of the early 1980s under President Reagan, giving budgeters pause. These environmental changes brought about startlingly obvious changes in budgeting. A large number of studies were done documenting and trying to explain what was happening outside the context of incrementalist theory. By the early 1980s, budgeters were beginning to theorize about what it all meant.

One conclusion was that budgeting was both top down and bottom up, and the balance changed over time in response to environmental changes. More broadly, it meant both that the level of resource availability affected budgeting and that budget behavior was conditional and not absolute. It also meant the budget base was not inviolable and that cuts were often not across the board.

The budget reforms of 1974 in Congress were precipitated in part by a constitutional crisis about who had control over spending, Congress or the President. This issue focused attention on the historical evolution of the location and balance of budget power. Debate about the success of the 1974 congressional budget reform helped to focus attention on the issue of what such budgetary changes were accomplishing, and hence focused attention on previous historical reforms, their circumstances, and their outcomes. When this focus was blended with the realization that budgeting varied in the degree of top-down emphasis and also varied with resource levels, the outcome was the beginning of a reformulated budget theory that emphasized historical conditions and developments over time. Incrementalism had been static, arguing that changes in budgeting were few. The theory examined changes from one year to the next, downplaying major historical changes. That mold has now been broken, and budgeting has a much more self-conscious concern with change.

Similarly, incrementalist theory directed attention away from issues of budget tradeoffs for many years. When the issue was finally addressed, it tended to be at least initially by nonbudgeters, many of whom were outside public administration completely. This literature was primarily quantitative, often comparative, and generally at the national level. Many authors tried to prove statistically that tradeoffs had to occur in the budget process. Even at the local level, where the level of discretion in spending is often small, budget tradeoffs occur over time.

At the local level, the lack of adequate descriptive theory has been acute. The most important omission has been the neglect of the linkage between municipal policy making and budgetary decisions. Incrementalism blocked the view for many years by asserting that policy issues were not dealt with in the budget process. Recent observation suggests otherwise.

Most major policy issues decided at city hall involve budgetary decisions, and most are made in the context of budgetary decision making. Will businesses be subsidized at the expense of homeowners, or will single-family homeowners be subsidized at the expense of apartment buildings? Will the poor or the "well to do" bear the greater burden of taxation? What range of services will the city provide, and to whom? What work will be done on what projects, and how much money will be allocated to the capital as opposed to the operating budget? Will the city deal with requests for grants, loans, or subsidies from social service providers, builders, or merchants? These issues routinely come up in the budget process. They do not always come up directly in the hearings between the departments and the budget office, however, which may have misled incrementalists into thinking that such decisions were not part of the budget process.

Policy decisions of varying scope occur with some regularity. For example, for the last few years cities have been wrestling with how to cope with the loss of General Revenue Sharing. In Dekalb, Illinois, the resulting debate forced a confrontation between social services and so-
called basic services. The city decided to increase taxes to replace the lost revenues. The tax increase that was decided on was regressive and grouped earmarked capital funding with social services as the beneficiaries of the tax. It is difficult to imagine a more far-reaching discussion on the priorities of the city and on definitions of need, equity, and balance between group interests. Two years later, DeKalb's city council was struggling with a choice of making appropriations for economic development (expansion) or absorbing the costs of drainage problems for existing homeowners, a problem that was being exaggerated by economic development at the city's margins. Again, this is a common policy issue raised in the context of the budget, requiring resolution in the budget through choice of projects and funding alternatives.

Other policy-laden decisions occur at intervals or at periods of city growth or decline. The time span of the observer has to be long enough to see these events, or the observer has to be lucky enough to come across them. Cities, for example, examine their revenues at intervals. They tend to set up commissions to explore a variety of options and to make recommendations. When the city goes for a new tax or a tax increase, it is a time of public accounting, a time when the city has to demonstrate that it is well run and that it is doing what the citizens want it to do. This is a decidedly nonincremental part of municipal decision making, and it has been undertheorized.

A second issue that has been relatively ignored because of the incrementalists' focus on departmental autonomy and legislative budgets is the amount of centralized executive review of the budget proposal, the amount of policy input from the executive and the legislature in the formation of the proposal, and the level and timing of the involvement of the council in decision making. In many cities, perhaps half, the budget process begins with a meeting between the executive and the council to discuss budget priorities. These priorities are then reflected in the budget that the executive proposes. Such a model implies that the departments are given guidance on what to emphasize in their proposals, and that the departments follow such guidance. This is not the only model of the budget process, but it is an important one, and, with its emphasis on central control and cooperation between the legislature and the executive, it is outside the realm of much budget theory. It happens, but what does it mean?

Municipal budgeting looks incremental only in the sense that revenues tend to increase slowly, and most changes occur at the margins. This is not a very significant discovery, since it would not be reasonable to expect that cities would terminate their fire departments and instead, double their police departments. Reorganizations—shifting and merging functions, emphasizing some tasks at the expense of others—occur with considerable frequency but are not easily detected in an incremental analysis of budget totals. Detection requires a perspective that goes inside the departments. In short, many nonincremental decisions are part of the municipal budget process and have been relatively unexplored.

The history of the relationship between descriptive theory and practice in budgeting suggests a worsening of the relationship from the middle 1960s until the early 1980s, followed by a rapid improvement. Continued accumulation of good descriptive studies is needed to encourage budgeters to theorize about trends and causation. More descriptive theory is needed. Openness and variety should be the guiding principles: explore everything that might be relevant. Explore the relationship between budgeting and society and the link between budget processes and democracy. Look at trends over time; try to link changing environmental conditions, budget processes, and budget outcomes. Budget theory has been too restrictive about what is important for far too long. Budgeting is complex, and no simple theory will ever be adequate to describe it.

Summary and Conclusion

The relationship between budget theory and practice has been different, depending on whether one was looking at normative or descriptive theory. On the normative side, budget theory has generally been more successful than imagined; that is, it has set attractive goals that have often been a guide for behavior. On the side of descriptive or even predictive theory, budget theory has been much weaker, often unable to see the phenomena in plain view to theorize about their meaning.

Projecting to the near future, successes in normative theory may be limited unless budget theory can formulate some recommendations that address the complexity of modern multifunction, multisource, multiyear budgets. By contrast, descriptive research has improved enormously in recent years, and the near future for descriptive theory looks bright.

Budgeters have regained the ability to see what is in front of them, and they are beginning to recapture the ability to theorize from what in fact is there. The field is poised for a mushrooming of descriptive theory over the next few years. The match between descriptive theory and practice will almost certainly improve over the next decade. Unfortunately, recent proposals for reform have often been attempts to curb the deficit or curb the level of national spending. The result has been a series of unrelated, and sometimes worn-out proposals, many of which have little potential for success. But perhaps the growth in descriptive theory will suggest some useful reforms.

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Notes


3. One elegant version of this argument appears in Edward A. Fitzpatrick's Budget Making in a Democracy (New York: MacMillan, 1918). He opens his book with a quote from Gladstone, "Budgets are not merely affairs of arithmetic, but in a thousand ways go to the root of prosperity of individuals, the relation of classes and the strength of kingdoms" (p. vii).

4. The argument that New York City had overdone budget controls through excessively detailed line items is made by Henry Brüe, "The Budget as an Administrative Program," The Annals, vol. 62 (November 1915), pp. 176-191. Fitzpatrick emphasizes this failure in drawing up his proposals for a more reformed and effective legislature and better information in the budget format for legislators to review. See Fitzpatrick, chs. 5 and 6.


7. See, for example, J. Harold Braddock, "Some Suggestions for Preparing a Budget Exhibit," The Annals, vol. 62 (November 1915), p. 157. He waxes rhapsodic on the relationship between city planning and budgeting. "It means that the great distributive function of our economic life is to be articulated with the other great function, production, in agreement with the dominant principle of the day—efficiency."


11. For example, Elgin, Illinois, lists each year all the interfund transfers, where they came from, where they went to, and for what reason. (This is an innovation I would recommend for many other cities.) Budget issues are described for each program before the numbers are presented. The Town of Windsor, Connecticut, has a budget that reports demand data, such as the number of fire incidents per year over a five-year period and the reported crime rate over a decade. This data outlines the basis on which a budget is formulated. Windsor's extremely clear program layout describes the functions of each program, describes any changes, and discusses key issues. Program narratives tell the reader what specific issues the program is dealing with each year and why.


13. Rose, op. cit., supra, p. 64.


15. See, for example, David Sallack and David Allen, "From Impact to Output: Pennsylvania's Planning-Programming-Budgeting System in Transition," Public Budgeting and Finance, vol. 7 (Spring 1987), pp. 38-50. Another example of this type of analysis is in Shuman, Politics and the Budget, chapter 10. Rudolph Penner and Alan Abramson, Broken Purse Strings: Congressional Budgeting, 1974-88 (Washington: The Urban Institute, 1988), evaluate the 1974 Budget Impoundment and Control Act of 1974 over a 14-year period, with careful evaluation of what the original goals of the Act were for those who designed it, rather than some of the claims later made for it. They argue, as others have argued, that the reform was neutral in terms of aims to increase or decrease spending, and hence the law cannot reasonably be judged on failure to curtail spending. They claim some successes and some failures of the reform over time.


18. The cities are New York City; Pittsburgh, Pennsylvania; Baltimore, Maryland; San Antonio, Texas; Durham, North Carolina; Cambridge, Massachusetts; Tucson, Arizona; Wichita, Kansas; South Bend, Indiana; Amarillo, Texas; Baton Rouge, Louisiana; Victoria, Texas; Oklahoma City, Oklahoma; Spokane, Washington; and Grand Forks, North Dakota. These cities were chosen on three criteria, range of size, distribution across the country, and the availability of sample budgets ten years apart. There may have been some bias in the sample, as cities with better budgets may have been more eager to send a sample to an archive.

19. The quotation is from Downers Grove's 1989-1990 budget introduction.


21. Sixty percent of respondents in the 1987 Georgia State Survey said they had used strategic planning. Seventy percent reported using some form of financial trend monitoring, and 68 percent reported using multiyear revenue and expenditure forecasts. Poister and Streib, op. cit., supra, p. 242.

22. The author served as consultant to such a planning process in 1988-1989 for the city of Warrenville, population about 9,000. A fictionalized version of the process is described in a teaching case written by this author, "Dollars, Decisions, and Development," in Managing Local Government, James Banovetz, ed., the International City Management Association, 1990.


25. For a good discussion of the level of complexity in recent federal budgeting and its implications for public budgeters, see Naomi Caiden, "Shaping Things to Come: Super-Budgeters as Heroes (and
Budget Theory and Budget Practice: How Good the Fit?


30. S. Kenneth Howard is an exception to this generalization. He wrote about the budgetary changes in the states in the 1970s but remained pretty much in the incrementalist framework. See Changing State Budgeting (Lexington, KY: Council of State Governments, 1973).


33. One of the first pieces to call attention to the changing role of OMB from one of neutral competence to one of more political loyalty was Hugh Heclo's "OMB and the Presidency—the problem of neutral competence," Public Interest, vol. 38 (Winter 1975), pp. 80-98. Interest was stimulated in OMB by the role it played under President Nixon when he began to deal with the Watergate scandal and OMB took over micromanaging the agencies. Larry Berman's history of OMB, The Office of Management and Budget and the Presidenty, 1921-1979 (Princeton, NJ: Princeton University Press, 1979) was written in the same vein. But the majority of articles on the policy role of OMB were written in response to the dramatic increase in political role of the office under President Reagan and Budget Director David Stockman. See, for example, Chet New- land, "Executive Office Policy Apparatus: Enforcing the Reagan Agenda," in Lester Salamon and Michael S. Lund, eds., The Rea- gan Presidency and the Governing of America (Washington: The Urban Institute Press, 1984), pp. 135-180, and Bruce Johnson, "From Analyst to Negotiator: the OMB's New Role," Journal of Policy Analysis and Management, vol. 3 (Summer 1984), pp. 501-515.

34. One landmark article was published in 1982 by Barry Bozeman and Jeffrey Straussman, "Shrinking Budgets and the Shrinkage of Bud- get Theory," Public Administration Review, vol. 42 (November/ December 1982), pp. 509-515. Bozeman and Straussman contended that top-down budgeting had characterized the three previous administrations but that budgeters had not theorized about it, in part because incrementalism limited their view. While casting aside large chunks of the incrementalist model, Bozeman and Straussman added to budget theory several key themes, especially that budget- ing has both top-down and bottom-up elements and that the empha- sis on each changes with the environment.


36. The literature suggests that cuts often begin in places that are diffi- cult to see, such as in delayed maintenance or delayed capital pro- jects. Money is gathered up which is not yet spent so that new hires are delayed or the slots eliminated, and purchases not yet made are cancelled. The result of this kind of decision rule is anything but across the board; it impacts some agencies much more heavily than others. Sometimes what started out as an across-the-board cut affected only some agencies when others were able to mobilize political support to prevent cuts. For some examples and rudimen- tary theory for the local level, see Charles Levine, Irene Rubin, and George Wolohojian, The Politics of Retrenchment (Beverly Hills, CA: Sage, 1981).


38. See, for example, the work of Charles Stewart on congressional budget reforms of the post-civil war era and their consequences, The Design of the Appropriation Process in the House of Repre- sentatives, 1865-1921 (Cambridge, England: Cambridge University Press, 1989).


41. This case is described in greater detail in Irene Rubin, The Politics of Public Budgeting, supra, ch. 1.
The Unity of the Budget 55. Budgets and budget control has been known since the early 19th century. However, the use of budget control was until the beginning of the 1920ies in US primarily related to governmental units and states and to a minor extent to business units in practice. At that time James McKinsey describes budgetary control as involving the following:

1. The statement of the plans of all the departments of the business for a certain period of time in the form of estimates.

The three concepts will be confronted with some of the criticism of budgeting in theory and practice. Early developments in budgeting research. Research on budgeting was based in a concern about the practical use of budgeting. Budget theory is the academic study of political and social motivations behind government and civil society budgeting. Classic theorists in Public Budgeting include Henry Adams, William F. Willoughby, V. O. Key, Jr., and, more recently, Aaron Wildavsky. Notable recent theorists include Baumgartner and Jones—Frank R. Baumgartner and Bryan D. Jones, Richard Fenno, Allen Schick, Dennis Ippolito, Naomi Caiden, Irene Rubin, James D. Savage, Thomas Greitens and Gary Wamsley. Budget theory was a central