

CHAPTER II

THE BUDGET — THE ESSENCE OF GOVERNMENT

WE turned loose recently into the literature of the budget propaganda a graduate student of a university who had the usual modicum of information about governmental administration but who was genuinely interested in the budget problem and keenly intelligent. About a week later he came back and said:

“Yes, I read that budget stuff. It always begins in a reassuring way by affirming that the budget is a vital subject and of very great importance to the public welfare. But before the discussion gets very far it centers around ‘fund statements,’ ‘operation accounts,’ ‘assets and liabilities,’ ‘revenues and expenditures,’ and the whole technical vocabulary of the accountant about which I know practically nothing. The point always turns upon some question of accounting definition or procedure. *There is never a word about public welfare, health or education, or anything.* It is a question of orderly arrangement of figures on the basis of existing accounting methods. It is a question of the manipulation of figures.”

This mechanical view of budget-making which is so prevalent will never give us even an adequate idea of the budget as an instrument of economy. So long as the budget is viewed solely as a question of finances, of financial methods and of financial policies, it keeps itself in an air-tight compartment with an imagined feeling of self-security. It was so with the fathers of

the recent proposed New York constitution. The way they and an imitative press expressed their satisfaction with the work which the convention was doing was most superior, self-satisfied, unctuous. They awoke the morning after the election to find a 400,000 majority rolled up against their proposals.

Mayor Gaynor of New York really understood the philosophy of budgets, taxation and economy. The story is told of him in connection with one of New York City's remarkable budget exhibits. Economy was in the air. Mayor Gaynor was looking around and came finally to the Charities and Correction exhibit. Commissioner of Charities, Drummond, who happened to be there, called the attention of the mayor to a placard which his own department had prepared and which read as follows:

"There is no merit in retrenchment when the savings come out of the bodies of men, women and children."

"Yes," said the mayor in reply, "but you must remember, Commissioner, that the taxes also come out of the bodies of men, women and children."

ACCOUNTING NECESSARY BUT SUBORDINATE

It is the social facts back of the budget that are of most significance. The accounting facts are only refined ways of expressing these social facts, but in the process of refinement the social facts have evaporated. The clearest evidence of this is that budgets up-to-date are practically universally without a social program and are frequently without a revenue program.

But we would not be understood to disparage sound accounting. Business methods must be introduced into public finance. Leaks, grafts, "poor business" must be checked and stopped. Economy, as far as is consistent with social need and society's ability to pay, should be secured. Accurate knowledge about the sources, the expenditures of public money and the costs of public service ought to be currently available. We want all these things, too, but we are insisting here that they be sub-ordinated to the social policies, that they be clearly recognized as a means to an end, that they be kept or prepared to throw light on public policies.

THE BUDGET MORE THAN A FINANCIAL DOCUMENT

The over-emphasis on the financial aspects of the budget has gone along with the demand for efficiency. Efficiency was interpreted to mean the maximum output per man, per machine, or per tool. It was interpreted to mean the elimination of unnecessary motions. Human efficiency was to become merely a phase of mechanical efficiency. This point of view and the reasoning based on it was carried over into budget-making. The efficiency of democracy must be looked into. The stumbling, halting, groping of democracy for a way to a higher plane aroused the ire of the efficiency expert. He was impatient. He set to work. And he demonstrated once more that the most *immediately* effective government was that of a benevolent despot, and sometimes not benevolent.

But there has been a recoil both in industry and in government from the operations of a mechanical effi-

ciency. A new tack was taken; a new point of view controlled. Perhaps one of the most significant aspects of the new efficiency is the importance of by-products. Carried over into government this meant, for example, that the by-products in the way of civic education were as important as the direct results. Efficiency became humanized and democratized. The former view of efficiency was accompanied by the commission form of government for cities; the latter by the city manager plan. The segregated, that is the minutely itemized, budget was an expression of a mechanical efficiency; the recent changes proposed permitting larger administrative discretion are in the direction of a genuine efficiency. The conception of the budget as merely a financial instrument is a phase of mechanical efficiency. The recognition of the social importance of the budget is the dawn of a true efficiency.

SOME SOCIAL ASPECTS OF THE BUDGET

The budget by providing the funds determines not so much how much money shall be spent for this, that, or the other thing, as how much protection of life and property the citizens are to receive, how much education they shall get, how comfortable or how good shall be the living conditions of the community, and other questions intimately related to the daily life of the citizen.¹ It is the emphasis on the financial aspects

¹ "Inefficient government is the greater evil because, whenever it knowingly or unknowingly fails to remove the causal conditions, it actually produces the weaknesses on which personal and social evils thrive. Inefficient government moves with the momentum of 100 per cent. of the population, using energies and

rather than on social and economic aspects that makes the subject uninteresting to an ordinary citizen, and confusion results from loading the subject with the technical vocabulary of the accountant. The citizen must view the budget not merely as an instrument of economy, but as the determination of the fundamental policies of government. Attention to bills determining policies is futile unless appropriations go with them¹

It is this social view of the budget that Gladstone had in mind when he said: "Budgets are not merely affairs of arithmetic but in a thousand ways go to the root of the prosperity of individuals, relations of classes, the strength of kingdoms."

We can say that our taxes are too high or we can say, as has been said, that "the feeling grows that our government agencies are going too fast and too far;

signatures of rich and poor, weak and strong, refined and vulgar alike, while social evils move with the momentum of their victims and their exploiters only. In the name of all citizens the schools are probably injuring the physical, mental and moral health of more children every year than private philanthropies are relieving in a generation. The distribution of taxes in the name of all citizens produces more inequalities of character, health and opportunity in a year than churches, schools and philanthropies altogether will remove in a decade, unless directly related to government agencies." (William H. Allen, "Modern Philanthropy," p. 385.)

¹ "The budget therefore is to the political court of first instance (the legislature) and of final appeal (the electorate) what established judicial procedure is to courts of law and equity. That is, a budget is an orderly means whereby issues between contesting parties may be defined, and with reference to which facts may be adduced and arguments made before decision is asked for at the hands of those who are responsible for the expression of public opinion on matters of government." (Frederick A. Cleveland, "What a Budget May Mean to the Administration," p. 40.—Taken from Proceedings of Conference on Commercial Education and Business Progress, Univ. of Ill., Apr., 1913.)

that they are not organized in a way to do their work efficiently; that they have not the means of locating and removing inefficiency." ("Constitutional Provision for a Budget," Frederick A. Cleveland, p. 191 — Reprinted from Proceedings of Academy of Political Science, 1914.) We can say that expenditures exceed probable income and proceed to reduce them; or we can say that the new services proposed are imperatively needed and find new sources or added sources of revenue, e.g., a 50 per cent. income tax on incomes in excess of one million dollars a year or a rapidly progressive inheritance tax, or a tax on gasoline. We can say that the dairy and food department is getting twenty-five thousand dollars too much and decide the issue as thus stated; or we can say that we shall substitute post-cards for inspectors and make our dairies a menace to the health of the state. We can say that the department of education received thirty-nine thousand dollars last year and that is all we will give it this year; or we can say that in spite of increased school population, of the need for continuation schools by workers between fourteen and seventeen years of age in the industries, of the increased demand for recreation centers, evening schools, public lectures, or what not, the appropriation must be kept within last year's allowance. In other words, we have always the alternative of stating the question before the executive, the legislature or the public in terms of the accountant or in terms of the social engineer. This book prefers to discuss the problem from the social rather than from the accounting point of view though it is not unmindful of the importance

and the place of the accounting reconstruction of public finance.

And if one were to express summarily the test of the effectiveness of expenditure of public funds in the light of the social view of the budget, he might word it as follows: *Social energy as expressed in public funds must secure in terms of social welfare results greater than the same expenditure privately made.*

THE BUDGET — THE SOVEREIGN ACT

It is, too, this social point of view which makes the budget the sovereign act. If the budget is more than a matter of arithmetic, if it is more than a financing of an existing governmental organization, if the facts determine the form and force of governmental power, if it is really the formulated expression of control of governmental activity, then it is through this instrument that the sovereignty of the nation or state is expressed. Where, therefore, power rests in determining the character of the budget there is the sovereign power for the budget is the essence of governmental power.¹

THE BUDGET AS A MEANS TO DEMOCRACY

We were told in our school days that the history of the English Parliament was largely the history of the increasing control of the Commons over the purse strings, and that all other subjects dwindled into in-

¹ "The passing of the budget, as the term budget is used in this discussion, is an attribute of sovereignty." ("Evolution of the Budget Idea in the United States," Frederick A. Cleveland, *Annals of the American Academy of Political and Social Science*, p. 20.)

significance in comparison with this. It was this control over the purse strings that gradually changed Parliament from a merely expressive body, telling the king what the state of public opinion was, to a supreme body itself determining finally public policy in the light of a public opinion which its membership expresses.

But the important fact is not merely the gradual acquirement of this power, but the utilization of the power. A king wanted to declare war and he needed money. The Commons made the situation the basis of the negotiation for popular rights or demands which the king had heretofore refused to grant. It was this use of the power that has given us the very democratic English government of to-day. This procedure clearly reveals the budget as the controlling fact of government — controlling not only money matters but the whole public policy.

A recent analogous use of an appropriation bill to achieve similar results is thus described by Congressman Fitzgerald:

“We abolished the Court of Commerce in the Appropriation Bill. I was somewhat instrumental in doing that. I was in favor of it. I thought it should be abolished. There was a great difference of opinion. The President was very strongly in favor of retaining it, and yet there was a two-thirds vote of the two Houses in favor of abolishing that court. Of course, if a bill could do it and come before the Congress, it could have passed over the President's veto. But the only way to accomplish it was to incorporate it in the appropriation bill. Whether it is a desirable thing to do or not, apart from that, under the Anglo-Saxon theory of government, the representatives of the people should be in a

position to compel an executive by the coercion exercised by the refusal to grant necessary supplies to conduct the government, to acquiesce in legislation that two-thirds of the two Houses would say is particularly desirable." ("Budget System," p. 315.)

And by a similar use of appropriation bills the Tariff Commission was abolished.

No time need be spent explaining or illustrating the influence of appropriation acts on government and on the community. The results are too patent. But that failure to appropriate may and does produce results not less positive, and, at least occasionally, deplorable.

On December 3, 1914, in an address before the New York Maritime Exchange, Secretary Redfield appealing to this influential body of public opinion on matters of steamboat inspection said:

"Should some day an accident occur because there was not time for the searching study at which we aim or because an exhausted inspector passed something over, we will deal firmly with it, but the responsibility will not in the last analysis rest with us *but with those who provide and with those who can move the providers to provide.*"¹ (1915 Report of the Secretary of Commerce of the U. S., p. 15.)

The facts had been repeatedly presented to Congress. It was notorious that the steamboat inspection service was both undermanned and overworked and that it needed a competent board of naval architects.

The Maritime Exchange did nothing.

Congress did nothing.

On July 24, 1915, the steamer *Eastland* turned turtle,

¹ Italics ours.

and over eight hundred persons were drowned in the Chicago River.

A colossal tragedy like this is needed to drive home the need for appropriations that should have been granted and which, if granted, would have made such a tragedy impossible. The report on this subject concludes:

“Notice is given it here to emphasize the importance of the recommendation that this Service be placed upon a scientific as well as upon a practical basis through the establishment of the board of naval architects for which the statement calls. This is a remedial measure of the highest value which would provide a technical marine inspection, heretofore impossible, for which neither force nor funds have been provided but which would safeguard at the source, so to speak, all parties in interest in our merchant-marine service as is not now practicable.” (Report of the Secretary of Commerce, 1915, p. 15.)

The same report on the same page drives home a similar lesson. The Secretary points out the inadequacy of our present motor boat laws. Deaths of individuals in all parts of the United States due to the very facts stated in the report are too scattering to impress a pork barrel Congress. They do not have the publicity value and the tragic appeal of the simultaneous deaths of hundreds. Listen to Secretary Redfield: “The existing conditions are a menace to the lives of innocent and unsuspecting passengers and should not be permitted to continue.”

And then he adds:

“Here and now for the third time the Department makes these facts clear and asks the authority, which it now lacks,

to protect the lives of innocent passengers. If that authority is not furnished, the responsibility for the loss of life which is certain to happen will not rest upon the Department. Fortunately, as is explained under the heading of the Navigation Service herein, men with vision connected with motor-boat interests are appreciating the dangers of the existing conditions and are united with the Department in favoring the legislation which is described and which will be submitted to Congress at its next session."

And here again unless there goes along with the law an adequate inspection service, what avails the law? Appropriations clinch laws. And again if other disasters like the *Eastland* follow because of inadequate or no appropriations, then the responsibility in the last analysis is on those "who provide and on those who can move the providers to provide."

This ramification of the budget everywhere into the governmental system has been more than once noticed. Representative Sherley has worded it thus: "These reports (majority and minority) would bring to the attention of this House and require the consideration by it of the real purposes of government and legislation, for in the final analysis nearly every proposition that comes before a deliberative body is one either of taxation or expenditure." ("A Budget Proposal," Speech of Rep. Swagar Sherley, Feb. 28, 1913.)

On the revenue side Frederick A. Cleveland has put it in these words: "The whole question of business prosperity and of equity between man and man within the jurisdiction of the state is involved in the revenue and borrowing policy quite as much as in the state's spending policy." ("Budget Systems," p. 271.)

The budget, ramifying as it does through our whole governmental system and social organizations and determining their character, is the essence of government. The budget whether unorganized as at present or carried on through the orderly procedure proposed in this book determines what force there shall be in law, determines whether it shall be merely good intention or pious aspiration or whether it expresses a form of social conduct to be transgressed at your peril. The whole question of administration, which means only law enforcement, is tied up in the budget. Or looking at it from another angle, our budget determines the character and extent of our civilization — our educational system, our safety, our welfare, our health, everything that raises us above the brute and the hermit.

THE BUDGET AND THE SOCIAL ORGANIZATION

There is yet another point of view from which the budget conception here presented may be emphasized. It is the point of view of the Society which the government to be financed by the budget is to serve. The character of that society will influence greatly, if it does not determine absolutely, the budgetary procedure of the government.

If the society is a static society, then the budget procedure is a simple matter. The limits of governmental action are determined, the form and organization of governmental administration are settled, and the budget is merely a problem of financing this governmental organization. Governmental action is largely routine. No problems of public policy are involved, no changes

in governmental structure are necessary, the budget is merely a matter of arithmetic, a matter of dollars and cents. In such a society the budget may be merely an administrative measure and turned over to executive officers. This is true also where the social organization is simple or rudimentary.

On the other hand in a Society that is not simple and not static, an entirely different relationship of society, government and budget must exist except where social needs are reflected, not through a democratic organization of government but through an autocratic organization. There, the very character of the government organization is a hindrance to proper budget procedure. If the governmental organization reflects social needs not directly through the social pressure of conditions, but indirectly through the medium of a King, or aristocracy, which determines largely in its own interest how far this social pressure shall find expression in the government and particularly in the budget procedure, then the budget is merely a means of registering what the aristocracy or the autocrat thinks good for the society. Germany is a notable illustration of this, but unfortunately it would take us too far afield to outline in detail these general statements.

But in a complex progressive industrial society with a representative democracy as the form of government, the budget procedure must meet new tests and serve other purposes. This is certainly now true in the United States.

Two conditions may exist in such societies. The political faith and practice of the people may regard

that government best which governs least. Its motto may be "*Laissez faire*." Its activity may be summed up briefly: "Do nothing." Under such conditions the whole question of social budget-making is in the hands of private individuals and private organizations and this situation need not detain us any further.

But in twentieth century, complex, industrial America, where government has broad social welfare ends to serve, and where it must be militant, aggressive, progressive and positive, the budget procedure must be responsive to the social needs.

The representative system of government is peculiarly fitted to this kind of social organization because the machinery exists for registering directly through the representatives the multiple social needs. In this kind of society questions of public policy are continually presenting themselves, governmental organization is highly specialized, fluid and adaptable. Government ramifies into the lives of all the people in thousands of ways. There is continuous need for new projects, new and changed administrative organization. These must be financed through the budget. Without the funds to finance these new projects and to sustain old projects, government will break down, or through perversion government will create or aggravate social conditions which it is designed to prevent or allay. The budget procedure, whatever it is, must be sensitive to the multiple needs of a complex industrial social organization.