1923

The federal budget

BOSTON UNIVERSITY

GRADUATE SCHOOL

Thesis

THE FEDERAL BUDGET

Submitted by

Margaret Theresa Crowley

(S.B., Simmons, 1922)

In partial fulfilment of requirements
for the degree of Master of Arts

OUTLINE OF THESIS

I. The Budget.

1. Origin, Meaning and general use.
2. Relation to Governmental work.
3. Form and contents.
4. Necessary business standards and accounting methods.
5. Social aspects of the budget.
6. Economic purpose.
7. Executive phase of the budget.

II. The English budget as an illustration of European methods.

1. Wide Influence of English System.
2. Preparation.
3. Ratification.
4. Control and audit.

III. The lack of budgetary procedure in the United States prior to 1921.

1. The budget of 1790.
   - A. Contents.
   - B. Beginning of decentralization.
2. The unsystematic system of appropriations.
   - A. Preparation.
   - B. The Book of Estimates.
3. Uncoordinated expenditures.
4. Lack of uniformity in accounting systems.

IV. The beginnings of reform.

1. President Taft.
   - A. His Commission on Economy and Efficiency.
   - B. Results of Work.
2. Reform propaganda.
3. Budgetary legislation of the 67th Congress.
   - A. The McCormick Bill.
   - B. The Goodwill.

V. A Federal Budget at Last.

1. The Budget and Accounting Act, June 10, 1921.
   - A. Establishment of executive responsibility.
   - B. Bureau of the Budget.
   - C. The General Accounting Office.
2. Accomplishments of the first year of the budget.
   - A. Forms in the Alternative Budget.
   - B. Co-ordinating Agencies.
   - C. The work of President Harding and General Dawes.
   - D. Accounting systems.
3. The Second Director of the Budget.
   - A. His campaign against deficiency bills.
   - B. The Budget for 1924.

The word budget is probably derived from the Latin word "bulga" meaning bag or purse.[1] In England in the middle of the eighteenth century the Chancellor of the Exchequer, when making his speech on the country's finances, took his accounts from a "brugette", the French word for bag. Afterwards the term budget was applied to his speech. Then later in France we find budget used to denote an estimate of receipts and expenditures. Often the word budget is considered as practically synonymous with the revenue and appropriation legislation. It should be a definite plan to include all fiscal operations of a government for a specified time.[2]

The budget is a complete financial plan for a definite period, which is based upon careful estimates both of the expenditure needs and of the probable income of the government. That is, the plan must represent two sides, an expenditure and an income, or revenue side.

Since government expenses mean public burdens, citizens should make it their duty to see that economy is practiced in the handling of public funds. Every citizen should demand the use of a systematic administration of revenues and expenditures in order that his government may be responsive to intelligent popular control and also so that he may know why he is paying taxes and where those he does pay go.

1. H. C. Adams: Science of Finance, p. 104.
2. M. . Hunter: Outlines of Public Finance, p. 420.

A most important feature of any government is the control that is exercised over the raising and spending of public money.[1] If there is proper control of the government's income and expenditure there must be some scientific plan of finance. This, then, establishes the need for a national budget system. A national budget system involves the formulation of the fiscal policy of the government and the execution of that policy and therefore must contain two essentials: (1) a document, or a series of documents, setting forth a comprehensive financial plan for the government, and (2) a procedure for formulating, reviewing and adopting this plan, and for carrying it into effect.

Effective budget-making procedure involves a sequence of operations. The recording of information may be considered as the first step in the sequence. Next comes the preparation of the estimates, then the examination and careful weighing of these estimates in the light of experience and recorded data, and then the formulation, review and adoption of the financial plan for the future period. Following this is the execution of the plan and the recording of more information to be used in the preparation of the next budget. And so the sequence is completed. Budget-making, therefore, is continuous and when applied to our government's finances should provide for a certain continuity of policy despite frequent administrative changes.[2]

1. A. E. Buck: Budget Making, p 1.
2. W. F. Willoughby: The Problem of a National Budget, p3.

While each budget should be all comprehensive and complete in itself, it is really only a link in the ever growing chain of the financial experience of the government. The various fiscal policies that are contained in the budget are not the result of a single year's planning or a single year's work, but are usually reached after a period of years. The financial planning for the going concern of government involves the calculation of the obligations and tax burdens that have been placed upon the future years by bond issues. A government may temporarily reduce its tax burdens by borrowings and by deferred payments, but eventually these obligations will have to be met and then the taxes will become doubly burdensome. The conditions of such borrowings and deferred payments need to be clearly set forth on the basis of laws and commitments, so that current policies may be shaped accordingly. This is as much a part of the work of budget-making as is the planning for the immediate future.

In this country our expenses are enormous and the people demand the most rigid practice of economy. A budget system makes it possible to closely consider and study both the revenues and expenditures of the Government and in this way only can be brought about the economy which the public demand and have the right to expect.[1]

Recently, growing emphasis has been placed upon proper accounting methods in private business enterprises

1. Hon. J. W. Byrns: The Nat'l Budget System (Speech in the House of Representatives, Oct. 17, 1919).

and this, no doubt, has been largely responsible for the increasing interest of the people in the handling of public funds. A modern business firm keeps in close contact with revenues and expenditures through its staff of skilled accountants and because of this the importance of the accounting profession has increased many times. This close management has proved so beneficial to private enterprise that the necessity of a similar system in the handling of public funds has become apparent to many. The constant increase in the number of accusations of graft and misappropriation of funds on the part of fiscal officials has been a means of leading citizens to demand a stricter account of the services which these public officials perform.

Budgetary procedure, to be effective, calls for complete accounting records and control over the revenues and expenditures of the government. The problem of establishing proper accounting procedure for handling the expenses and revenues of the government divides itself into two phases; One is the administrative accounting and the other is the independent audit. The accounting must be done by those who are held accountable for the carrying out of the budget. The independent audit involves a careful review of all administrative acts by a non-administrative agency,

Although the fundamental purpose of the budget is economy, it must be remembered that the budget concerns itself with something beyond the mere question of finance, financial methods, and financial policies. The social facts

back of the budget are extremely significant. The accounting facts are really only expressions of these social facts.

The budget in 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 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] The citizen must regard the budget not merely as the means of obtaining financial economy, but rather as the determination of the fundamental policies of the government. It is the very "essence of government."[2] Gladstone saw the importance of the social view of the budget 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, strength of kingdoms."

President Taft, the first chief executive to recognize the country's need of a budgetary system said: "The great problem of popular government on its practical side is to create machinery by which those for whom government is carried on, and who should control and direct government in a large way, shall be advised of the facts, and upon those facts, correctly interpreted, shall exercise discriminating criticism and ultimate decision."[3] Dr. Frederick A. Cleveland, the foremost authority in America, on the subject

1. E. A. Fitzpatrick: Budget Making In A Democracy, p 20.
2. Ibid. p 27.
3. Wm. Howard Taft in his Introduction to "The Budget and Responsible Government" by Cleveland & Buck.

of the budget, rightly conceives that one of the great defects in the past which has led to wastefulness and ineffectiveness in public finance is the failure to keep the public thus advised. This leads to invisible government which does not make for efficiency, economy, or honesty. Dr. Cleveland regards a proper governmental budget as very important in eliminating invisible government. He is a firm supporter of the budget which he believes will bring about visible and responsible government.[1]

The political necessity for the adoption of a budget procedure lies in the fact that it is the only effective means which has ever been devised for enforcing accountability and responsibility on an executive who has sufficient power to make him a leader, i.e., to make him effective in the preparation and submission of plans proposed for adoption and to enable him efficiently and economically to execute them after they have been approved and financed. The economic necessity for the adoption of a budget procedure lies in the fact that demands for service by the government will continue to increase and with this the necessity both for careful, intelligent planning by the management and a strict censorship on the part of those who pay the bills.[2]

1. Cleveland and Buck; The Budget and Responsible Government, Chapters I & XXI.
2. F. A. Cleveland: Budget Making and the Increased Cost of Government, American Econ. Rev., March, 1916.

The history of the financial affairs of the United States reveals a lack of proper budgetary procedure. The development of the budget system in England, however, has reached a high degree of perfection. Of our need of a budget and of English experience, Professor Lowell of Harvard University says:

"Few subjects relating to our government have attracted more attention in this country within the last few years than financial administration; few need to be more carefully overhauled; and there is no system better worth our study for this purpose than that of England."[1] Great Britain has evolved a more exact scientific method of handling her fiscal operations than any other country and her system has been adopted by both India and Egypt and in the Canadian fiscal system the influence of the machinery of the Mother Country is clearly discernible. Because of the high degree of perfection of the English budget and because of the deep influence which it has had in the formulation of other fiscal programs I include a summary of it here since it offers the best example of European fiscal methods.

The fiscal year of Great Britain begins April 1st. No appropriations are allowed to hang over from one year to the next but each year is complete in itself. The various departments of the government make estimates of expenditures which they submit to the Treasury Department.

1. President Lowell of Harvard in his Introduction to "Financial Administration of Great Britain" by Willoughby, Willoughby & Lindsay.

In the Treasury rests the authority to review and revise the estimates. The estimates are made up, at the request of the Treasury Department, about December first, following which they are compiled and reviewed by the Chancellor of the Exchequer who has the power to reduce them. Should the Chancellor and the Treasury Department fail to agree, appeal is made to the Prime Minister as arbitrator.[1]

After the list of revenues has been prepared by the Treasury Department a balancing of the possible receipts and expenditures is undertaken. The result is a well formulated plan which usually provides for a rather large surplus. It is then the duty of the King to lay the proposed fiscal plan before Parliament. The estimates are printed in well organized and summarized form and given to each member of Parliament. It is the duty of the Prime Minister to pilot the bill, but the various items are defended by the Chancellor of the Exchequer who is a member of the House of Commons.[2]

There are usually about one hundred and forty divisions in the budget and these various divisions are acted upon by the House as a committee of the whole. Each separate section is discussed and voted on. Items may be reduced but cannot be increased except under closely restricted conditions. When these bills have been made acceptable to the committee they are passed in Parliament

1. Willoughby, Willoughby and Lindsay: Financial Administration of Great Britain, p 50.
2. H. C. Adams: Science of Finance, p 119.

proper, under the title of the Consolidated Fund Act, which is usually accomplished before the end of the fiscal year. Later the passage of the appropriation measure is followed by a finance act which levies the taxes for the year.

There are two classes of expenditures in the English budget, permanent appropriations and supply appropriations. The permanent appropriations such as those for the sinking fund, pensions, debt charges, courts, and the civil list, need not be voted year after year, but have been voted to continue until the Act under which they are authorized is repealed. The supply appropriations containing such items as the appropriations for the army and navy, revenue department, post office, and the civil service, on the other hand, must be voted repeatedly. This arrangement simplifies the budget preparation and also makes it possible to concentrate attention on the more difficult and fluctuating items. Furthermore it has the tendency to give a feeling of security to activities undertaken by the State.

The revenue, too, is of two classes, one permanent, and the other provided for currently. About three fourths of the entire revenue comes from the first class, so that it is necessary to provide in the financial bill the amount above this which is required to meet the needs of the appropriation bill, or about one-quarter of the total amount. These estimates of receipts and expenditures are so exactly anticipated that the actual amounts do not usually vary more than two per cent from the expectations. The funds are

placed in the Bank of England and are at the control of the Comptroller and Auditor-General.[1]

Absolute responsibility for the success of the budget rests upon the ministry. The finance minister has a seat in the legislative body, which, in turn has complete control over expenditures. One branch of the legislative assembly has practically entire control over the budget. Probably it is the marked centralization of control over the fiscal system that has made it so very successful.[2]

1. Carl C. Plehn: Introduction to Public Finance, p 381.
2. W. F. Willoughby: The Problem of a National Budget, p 59-62.

The history of budget-making in the United States is in great contrast to the experience of England. At first the practice here was good.

January 5, 1790, the Secretary of the Treasury submitted to Congress a complete actual budget - a detailed statement of expected income and proposed expenditures for that fiscal and calendar year. There were also in this budget statements covering the condition of the Treasury and recommendations for the raising of additional funds which would be necessary if the program of expenditures were approved by Congress. This budget of 1790 was enacted into law as one complete measure carrying all the appropriations of the government. This simple business procedure was continued until 1794 when a process of decentralization began. Some of the fundamental budgetary features were continued for thirty years but the process of decentralization continued until the Budget and Accounting Law of 1921[1] went into effect when, instead of one appropriation bill covering the Government's activities, there were fourteen independent bills considered by eight independent committees.

This caused a lack of coordination of the Government's finances and financial operations which finally compelled the adoption of a system, which, in its fundamentals, approximates the system instituted by Alexander Hamilton one hundred and thirty-three years ago.

1. United States Statutes, 67 Cong. 1 Session.

For a proper conception of the problem facing the administrators of the Budget and Accounting Act it is necessary to review the procedures under the decentralized system of estimating, appropriating and expending prior to the fiscal year 1922.

The government of the United States, until June 1921, was probably the only great business establishment in the world that conducted its affairs without any correlated financial program or any consistent fiscal policy. Responsibility for the government's fiscal policy was widely scattered. Not only was it shared by the legislative and executive branches as a whole, but in each branch it was so divided and sub-divided as to be virtually non-existent.[1]

At the beginning of each fiscal year department officials had to prepare estimates for funds for the year which began twelve months later. These departments within themselves comprised many and varied activities - organized into divisions, branches, sections and sub-sections.

On the executive side of the government each department, bureau, office, board, and commission prepared its estimates of appropriations independently. Neither the President nor the Cabinet had any real control over these estimates.

These estimates from the various departments and bureaus, prepared in this unscientific way, were forwarded to the Secretary of the Treasury who gathered them in a

1. R. A. Lewis, Jr.: How the Government's Budget Works - from World's Work, March 1922.

so-called "Book of Estimates" and without further consideration submitted them to Congress. This, indeed, was all his authority permitted him to do. Thus the estimates were assembled in the Treasury Department but the work done there was purely mechanical and mathematical. The Treasury had no authority to revise or coordinate the estimates prepared by the department officials. The estimates were haphazard and disjointed. They did not represent the best judgment even of the estimators who prepared them, but were purposely exaggerated in the expectation that they would be reduced by Congress.

There was absolutely no comparison of the estimates of one department with those of other departments to eliminate duplication of effort and consequent expenditure. And there was no comparison of estimates of proposed expenditures with probable revenues for the period for which the estimates were prepared with a view to the modification of such estimates and the adjustment of Treasury conditions.[1]

These swollen estimates brought together in the Book of Estimates - a collection of guesses without proper study, without comparison, with little or no pruning, without regard to the condition of the Treasury, without consideration of the taxpayer, without much relation to any definite governmental policy - were submitted to Congress which proceeded to hold extended hearings, study the estimates, and make reductions, apparently warranted. In

1. W. F. Willoughby: The Problem of a National Budget, p 55-58.

Congress, there was a lack of centralization and responsibility in regard to these appropriations. When the departmental estimates reached Congress they were parceled out in each House to a number of appropriating committees. Here, again, the procedure was loose and disjointed. The bills making appropriations were nowhere brought together and considered as a unit. No facilities were provided in Congress for the intelligent correlation of the financial needs of the government with ways and means of raising revenue.[1]

There was no coordination in preparing the estimates, there was no coordination in appropriating the funds, and there was no coordination in expending the funds. The estimates come out of Congress, badly shattered in the shape of appropriations and took their places on the statute books and the various departments began an era of uncoordinated expenditure.

During this process the Treasury had no acquaintance with the bills; appropriations were made, the spending departments had their check books ready and the Treasury must find the money no matter how great the amount. There was too seldom a definite fixed policy and too often little or no control in government departments of obligations and expenditures.

The law did compel submission of the expenditure vouchers to the accounting officers of the Treasury for audit, but that audit was made after the obligations had

1. Reed Smoot "Reforms in the Federal Government" from Proceedings of the Academy of Political Science, July, 1921.

been incurred and the expenditures made and was limited to ascertain whether or not the obligations had been incurred and the disbursements made in accordance with the law.

The government was notorious for the lack of uniformity in its systems of accounting. The administrative officers in each department and establishment had their own ideas and tastes with respect to methods of accounting and bookkeeping, and so in the executive branch of the government there were practically as many different systems of accounting for appropriations and funds as there were separate establishments. There was no central agency that had the power either to standardize methods of accounting or to collect and correlate information to show the cost of government business. There was no agency which could give to Congress or to the public the facts concerning the business of the government that correspond to those given periodically to the stockholders of any private corporation by its management; the value of its resources, the amount and character of its obligations, its earnings, and its expenses.

Until the passage of the Budget and Accounting Act in 1921 the development of our fiscal system had been away from systematic estimates of revenues and expenditures. The trend had been toward a decentralization of fiscal machinery. The evils which resulted from the lack of fiscal control and the corresponding lack of responsibility have caused many demands for a change.

There have been occasional men who have seen the errors of such faulty governmental procedure and who have called attention to new, excellent, and effective budgetary methods for our government. President Taft was the first chief executive to see the need of a budget system in our government. Under him reforms began to take definite shape. He received from Congress an appropriation of $100,000. with which to make investigations into the efficiency of various executive departments. These investigations were made by the Commission on Economy and Efficiency which was composed of ably trained men with Dr. Frederick A. Cleveland at their head. The report which this commission made showed clearly the "Need for a National Budget" and made definite an excellent recommendations for the remodeling of the fiscal program to conform to a budgetary plan. President Taft tried very hard to have our fiscal system remodeled and to install an executive budgetary plan but at that time both Congress and the Senate were antagonistic and his effort failed. The report of the Commission on Economy and Efficiency was

pigeon-holed by Congress and the Commission itself went out of existence because of the failure of Congress to provide for its further support.[1] Although President Taft and his Commission on Economy and Efficiency failed in their main purpose, to establish a budget, the effects of their efforts were far reaching. Their work gained much wholesome publicity and since that time demands for reform have come from an ever increasing number of individuals and organizations. The term "Economy and Efficiency" has since become the slogan of the business organization of the country. The National Budget Committee later took up the work that the Commission on Economy and Efficiency began and spread propaganda on the subject of the "Need for a Budget" throughout the country.[2]

Each of the important political parties has declared itself for fiscal reforms and in particular for a businesslike budget. Perhaps it is only the more pressing problems brought on by the Great War that have delayed fiscal reforms until as late as 1921.

There have been many suggestions for budgetary reform and various bills and resolutions before recent sessions of Congress and though all have not advocated the same form all have sought to centralize responsibility.[3]

1. The need for a National Budget - 62d Congress 2d Session Document No. 854.
2. W. F. Willoughby: The Need for a National Budget, p 143. C.W.
3. Collins: The National Budget System and American Finance, p 132.

President Wilson declared himself in favor of the budget; "Ever since I was a youngster I have been deeply interested in our methods of financial legislation. Ever since then I have insisted upon the absolute necessity of a carefully considered and wisely planned budget, and one of the objects I shall have most in mind when I get to Washington will be conferences with my legislative colleagues there, with a view to bringing some budget system into existence. This business of building up the expenses of the nation piece by piece will certainly lead us to error and perhaps to embarrassment."[1]

In 1920 Congress passed a law which provided for rather extensive centralized budgetary machinery for Federal finances. This was vetoed, however, by President Wilson. He declared himself entirely in sympathy with the objects of the bill and would gladly have approved it except that he regarded one of the sections as unconstitutional. The effect of this section was to prevent the removal of the comptroller-general or the assistant comptroller (officers created by the bill) for any cause except either by impeachment or a concurrent resolution of Congress. The President held that it was an accepted construction of the Constitution that the power to appoint officers of this kind carries with it, as an incident, the power to remove and since these officers were to be appointed by the President with the advice and consent of the Senate, it was unconstitutional to

1. The Nation's Business, June 16, 1913.

forbid the President to remove such officers. This was President Wilson's reason for his veto.[1]

Budgetary legislation was one of the important matters acted upon by the sixty-seventh Congress. Under the leadership of Senator McCormick a bill passed the Senate April 26, 1921, and under the leadership of Representative Good, a similar bill passed the House May 5, 1921. One important difference between the two bills was that the McCormick bill centered responsibility in the Treasury Department while the Good bill centered it in the Executive Department. The National Budget Committee declared in favor of a combination of the two in a McCormick-Good bill. An immediate conference on the two bills was arranged and the conference report was adopted.[2] The McCormick-Good bill has the advantages of a budget system in which the responsibility of the President for the initiation of the budget and for the correction of evils, which any budgetary system surely would reveal in the business organization of the government, will be made unquestionably secure and Congressional responsibility for criticism and clear cut issues will be made equally clear and effective. This is the bill which became law as the Budget and Accounting Act of June 10, 1921.

A new era has been inaugurated. Under the Budget and Accounting Act the President became the head of the

1. Congressional Records, June 4, 1920.
2. Cleveland and Buck: The Budget and Responsible Government, p 372-381

business organization of the government and assumed all the great responsibilities devolving upon this direct leadership. Thorough machinery was provided for him and scientific methods were inaugurated in the estimating of funds and expenditures thereof and coordination was established in the routine business organization. Of this new legislation General Lord, the present Director of the Bureau of the Budget, says:

"The Budget and Accounting Act is not in itself a magic wand that waves out all faulty financial procedures and beckons in the financial millennium. Habits, customs, regulations, laws that the passage of a hundred years or more has built into the very machinery of the government are not eradicated over night. The most flagrant faults will be corrected first, but it must be a continuous process, that will require years of patient, persistent, and courageous endeavor, with the unwavering, vigorous support of the executive, the cooperation of the personnel of the government, and the watchful interest and intelligent indorsement of the people of this country."[1]

Instead of many estimating agencies within the various departments and bureaus the Budget law requires the appointment of a budget officer by the head of each department and independent establishment of the government, who is charged with the preparation of all estimates of his department or establishment.[2]

1. Gen. H. M. Lord: "The National Budget System" from the National Municipal Review, Feb. 1923.
2. Budget and Accounting Act: Section 214 (U. S. Statutes, 67 Congress, - 1 Session)

The creation of these budget officers are considered of primary importance by those who were particularly responsible for the enacting of the budget legislation, and the men filling these important positions must be officials of sterling ability, of standing in their branches, and must be given absolutely independent status as far as budget operations are concerned. The budget officer is the fiscal officer of his department. In matters pertaining to the budget he must be subordinate to the head of his department alone and should report to him directly.

The estimates prepared by the budget officers and approved by the department heads are submitted to the Bureau of the Budget where they are given microscopic examination and analysis by special investigators familiar with the organization and operations of the various agencies of the Government, acquainted with their functions and their missions and who know what the bureaus have been doing with their appropriations. Here, the estimates of one department are compared with those of other departments, duplications eliminated, and reductions and modifications made so as to fit them into the approved administrative policy. These estimates are also studied with an eye upon the condition of the Treasury of the United States and tax conditions. This carefully prepared estimate is then submitted by the President to Congress for action with a statement of expenditures for the last prior year for which a complete report is available, and estimated expenditures for the

current year. The estimates are also accompanied by statements showing the condition of the country's finances and expected receipts, and if funds over and above the yield from established sources are needed the law requires that the President shall recommend what steps in his opinion should be taken to provide such revenue.

This budget and accounting law has brought about a revolution in the House and Senate along appropriation lines. Today all appropriations of the government are made on bills reported to Congress from one committee, the Appropriations Committee of the House and the Appropriations Committee of the Senate. This arrangement affords opportunity for comparing the estimates of one bureau with those of another and permits consideration of the country's needs as one complete study, one committee acting for the House and for the Senate.[1]

Under the operation of the budget law the annual appropriations for each department now all appear in one act and it is not necessary in order to find how much money is available for a department or agency, to search through several different appropriation acts for that information. This is a long step toward adequate government financial procedure.

The Budget and Accounting Act provides for a General Accounting Office with a Comptroller General at its head. This office is charged with the duty of auditing

1. R. A. Lewis, Jr.: How the Government's Budget works, World's Work, March 1922.

all disbursements of public money and the settlement of claims not paid by disbursing officers. It is not only to prescribe the forms of keeping and rendering public accounts but is charged with devising the forms and procedures of administrative accounting in all branches of the service.[1]

The term of office of the Comptroller General is fifteen years. He is not eligible for reappointment and can be removed only by impeachment or by joint resolution. Since joint resolution is initiated in Congress and requires the signature of the President the Comptroller has the desired independent status as against either the legislative or executive taken individually. The offices of Comptroller of the Treasury, Assistant Comptroller of the Treasury, and the six Auditors of the Treasury Department are abolished under the new law. The duties of these former offices are to be performed by the new Comptroller General and in addition he is authorized to investigate all "matters relating, to the receipt, disbursement and application of public funds"[2] and to make recommendations to Congress "looking to greater economy or efficiency in public expenditure."[3]

Here is something entirely new in our Federal Government. An officer, independent of the executive, yet with an administrative staff and with free access to all executive departments and records, has been created to study

1. The Budget, July 1922, Vol. I, No. 5
2. Budget and Accounting Law, Sections 301-312 (U.S. Statutes 67th Congress 1 Session)
3. Ibid. Section 310.

the efficiency of governmental agencies and to report to Congress. He is the agent of Congress with the power of surveillance over the administration. It is intended that he conduct a sort of continuous study of executive operations.[1]

The General Accounting Office and the Bureau of the Budget collaborated in the preparation of a system of uniform classification of objects of expenditure which was put into effect July 1, 1922 and applies to every activity of the government. This is the first step toward a unifying accounting system so necessary from the standpoint of economy and efficiency.[2]

Concurrently with the establishment of the Bureau of the Budget President Harding announced his determination to assume his full responsibility as the head of the governmental business organization and asked General Dawes, the Director of the Bureau, in accordance with the provisions of the Budget law, to immediately suggest to him such improvements in existing governmental business methods as could be legally inaugurated by him through Executive orders. When General Dawes submitted to him information concerning certain defects, the President decided to use the Bureau of the Budget as his first agency for imposing the pressure of an executive plan for the unified conduct of governmental routine business and for retrenchment where consistent with

1. "A Federal Budget at Last" from the National Municipal Review, July 1921.
2. Report of General Lord, 2nd Director of the Bureau of the Budget at the Second Annual Business Meeting, July 11,1922.

efficiency. At this time the President was also planning appropriate machinery to create a situation in the affairs of the government business corporation where the head of the corporation could transmit, with the minimum of obstruction and delay, a unified plan of routine business to be carried out by his subordinates.

The President then followed the only possible course by which, as in a private corporation, all those in authoritative relations to expenditures of the government could be impressed with an executive plan, and on June 29, 1921, called them en masse for instruction. This constituted the first meeting of the business corporation of the Government of the United States. At this meeting, attended by the Cabinet and about five hundred department heads, heads of establishments, and bureau chiefs, President Harding outlined his position and General Dawes explained the methods to be followed in carrying out his purpose. The President expressed his determination to have economy and efficiency in the administration of the affairs of the government and said he looked to the Budget System to bring this about. General Dawes laid down the principle that the Bureau of the Budget would not confine its work to the preparation of the Budget, but would apply its efforts towards reducing the expenditures of money already appropriates by Congress for the fiscal year of 1922.[1] This meeting marked the beginning of an intensive economy campaign covering the fiscal year of 1922.

1. Reports of President Harding and General Dawes, 1st Director of the Bureau of the Budget at the First Annual Business Meeting.

The attitude of the President in relation to the use of the Budget Bureau as a means of imposing his policy for the reduction of governmental expenditures is most important. For the first time in the history of our country a national Budget has been prepared, based on estimates from the spending departments acting under a strong and continued Executive pressure for economy and efficiency. The Budget of the United States for the fiscal year 1923 covering the sum of $3,505,754,727 is prepared on the basis of the amount of cash which must be withdrawn from the Treasury during the fiscal year 1923.

From the very outset General Dawes took the view that "the solution of the problem of intelligent revision of appropriations is to be found in the principles recognized in a successful private enterprise."[1] While by its novelty, the Budget has occupied a prominent position in the press the Budget Director has sought to keep it in the background. - "The budget is concerned only with the humbler and routine work of the government unlike cabinet officers, it is concerned with no question of policy save that of economy and efficiency. No cabinet officer on the bridge with the President, advising as to what direction the ship of state should sail - concerned with matters of the highest policy but at the same time under our Constitution charged with responsibility for a limited portion of the common machinery of the ship - will properly serve

1. C. G. Dawes: The First Year of the Budget of the United States, p 103

the captain of the ship or its passengers, the public, if he resents the call of the Director of the Budget from the stake hole, put there by the captain to see that the coal is not wasted. In whatever direction as a matter of policy those in higher place and authority may turn the ship, the way the coal is handled and conserved determines how far in a given direction the ship will sail. The Bureau of the Budget is impersonal, impartial and non-political and thus it must always remain."[1]

General Dawes' aim in preparing the budget for 1923 was to submit the facts required in the different portions of the Act in the most simply condensed and easily understood form at the same time supplying full and accurate information.

The statements include all ordinary expenses of the government's operations and the required public debt expenditures. The attempt is made in this table only to reach a comparison in summary form between the ordinary receipts and the grand total of expenditures which have to be met out of ordinary receipts.

The summary statement is followed by detailed statements of expenditures, first, in the order and amounts of expenditures by departments, and second, with relation to the object of expenditure; and these in turn are followed by a detailed analysis of the revenues from the various sources of government income.

1. Ibid. Introduction.

The Budget concludes with a statement in detail of the appropriations requested by the several departments for the fiscal year 1923 as revised by the Bureau. This takes the place of the former Book of Estimates.

In the Budget the estimates follow the same order and arrangement as the appropriation acts for the fiscal year 1922 to allow Congress to compare them with those of former years. This form and order is changed in the Alternative Budget, explained below, so that all appropriations from any one department appear together in one appropriation bill or section of the bill.

The Budget and Accounting Act required that the estimates of appropriations be submitted according to the form and content of the old Book of Estimates, but, at the same time, Congress, in Section 205 of the Act, recognized that such forms would not meet the requirements of a proper budget. An alternative budget was required to be submitted for the fiscal year 1923 only, in which the President would be free to submit the estimates of appropriations in such form, manner, and detail, and according to any classification he might select. Under his authorization the Alternative Budget was prepared and submitted as outlined above.

One of the most significant budget developments of the first year of the Budget was the acceptance by Congress of the Alternative Budget as a basis for appropriation bills instead of the regular budget.[1]

1. The Budget, March 1922, Vol. I, No. 1.

The revision of appropriations involving the expenditure of over $3,000,000,000. was done by the Bureau of the Budget. The personnel of the Bureau of the Budget consists of the Director, the Assistant Director and four advisers of the directors selection. The rest of the organization is secured under civil-service regulations. General Dawes, however, at the time of such a great emergency in the government's business was able to call in to help him a body of business men who left their businesses and became government employees at the salary of $1 per year. General Dawes was further assisted by members of Congress, and others whose connection with governmental business in the past enabled them to give valuable practical advice. Such advice from men experienced by continual contact with business the Director of the Bureau must have. The personnel of the organization must be drawn from the different departments and such men as have shown in the preparation and revision of the estimates for 1923, their qualifications for such important work might well be chosen. Selection for this work, responsible as it is directly to the President of the United States should be looked upon by the men chosen as a high appreciation on the part of the Executive of their ability, character, and competence. Such a plan is pursued in all successful business organizations - that of calling into contact with the executive and his agents the impartial minds from the various departments of the business best qualified to think in terms of policy for the entire organization rather than any particular part of it.

The temporary service so well rendered General Dawes in such a critical period by minds drafted from among the leading business men in the country is being gradually given over to men chosen from the various departments who are qualified for the work.

These men in the office of the Budget Bureau will be assigned particular departments between which and the Bureau they will function continuously as liaison officers. Thinking in terms of the President's policy, they will bring to the heads of the departments and the Chiefs of the bureau with whom they will be in contact a better idea of how the plan of their particular department can be made to better harmonize with the plan which the President has established for the government as a whole. Continued contact with the departments will enable them to more accurately advise the Executive, through the Bureau upon the minimum of expenditures beyond which the Executive will not desire to go. The fact that these men will not be political employees together with the fact that the administration of the Bureau must be non-partisan, will help establish the fact that it is only an agent of ordinary routine business, working alone for economy and efficiency and not as an adjunct of party or administration.

Congress under the Constitution has the sole power of appropriation, and in passing the budget law, has created an agency to help secure impartial information concerning its consideration of appropriations.

When the Budget has been submitted to Congress by the President it is to be expected that since the preliminary estimates have been made under pressure by the Executive for economy and efficiency, it will not be necessary for Congress to make radical cuts upon the estimates.[1] When the President presents the Budget to Congress it is presumed that he does so with all the reductions in expenditures which can be effective without impairment of the government's business processes. In the preparation of the Budget he has had at work an authorized agency both in investigating desired appropriations and in imposing pressure upon the departments for reductions in their estimates wherever possible. The Bureau of the Budget should be of great assistance to Congress in its consideration of appropriations.

In the 1923 Budget, however, Congress did deem it advisable to cut the estimates of expenditures prepared by the Bureau of the Budget and submitted by the President. The Budget estimates for 1923 were $3,919,558,429.50 and the expenditures appropriated by Congress were $3,747,035,382.64. The actual decrease, therefore, made by Congress from the original estimates amounted to $172,523,046.86.

This reduction in the Budget estimates did not fail to raise the question as to the ultimate results of Congressional paring of estimates that had presumably been carefully made by the Bureau of the Budget for the President. This reduction, however, cannot be construed as a reflection on the Budget system.[2]

1. The Budget, March 1, 1922 (Vol. I, No. 1)
2. The Budget, Apr. 1, 19

The Budget system of the United States is designed to meet the Constitutional theory that while the Executive may recommend, the final legislative authority is in Congress, and the advocates of an Executive budget have never been in favor of abolishing this authority. The theory of our Budget system is that under the supervision of a bureau directly responsible to the President, and devoting all its time to business, there will be presented to Congress a more reliable estimate of prospective receipts and expenditures of the Government than could be obtained by any Congressional Committee or group of committees which got their information from a great number of departments, bureaus and divisions. At the same time it is recognized that Congress is in a position to judge with a fair degree of accuracy what returns may be expected from the revenue measures it has enacted or proposes to enact and is also entirely within its province when it cuts appropriations to accord with this prospect of revenue.

The fact that the Budget estimates are submitted at the beginning of the session and that the law making of that session may very materially affect the correctness of those estimates, indicate that in addition to the help of the Bureau of the Budget the President should also have the counsel of the legislative leaders before his final estimates are prepared. The co-ordinations in the various departments by the Director of the Budget Bureau will tend to stabilize amounts expended from year to year, but accuracy in estimates will not be obtained until the President has

before him also a clear picture of what Congress intends to do in the ensuing session. The legislative leaders of the dominant party may be supposed to have a fair idea of what new laws are to be enacted. To get an efficient working of the Budget system they should lay before the President their program and should obtain from him an estimate of expenditures which he thinks necessary. Such preparation of the Budget estimates will give the people of the country a clear view of the probable cost of government during the next fiscal year.[1]

Another noteworthy accomplishment of the first year of the Budget was the establishment by the President of co-ordinating agencies. At the advice of the Director of the Budget and upon information supplied by the Bureau be created these agencies to engage in co-ordinating in all matters of business routine, the activities of the separate departments and establishments. The President transmits his policy to the business organization through these agencies. The agencies, known as co-ordinating boards, are really interdepartmental committees each board consisting of a representative from each establishment or department concerned in the business activity under consideration with a Co-ordinator over each board who in turn is subordinate to the Chief Co-ordinator appointed by the President.[2]

One of these co-ordinating agencies is known as the Federal Purchasing Board. On this board is the chief purchasing officer of each department or establishment of

1. Ibid.
2. The Budget, August 1, 1922 (Vol. I, No. 6) - Wm. P. Hehn, Jr.: Uncle Sam gets Down to Money Matters.

the government with a chief co-ordinator as chairman, named by the President. The chief co-ordinator has the authority limited by right of appeal in case of any difference of opinion, to impose co-ordinating orders. He can thus prevent competition between the different departments in outside purchases not only by preventing them from raising the price on each other, but where large quantities of standard commodities are to be purchased, by ordering one department to execute the purchase for itself and as agent for the others. By executive orders it was directed that in each executive department and independent establishment of the government there shall be a director of purchases and a director of sales who shall co-ordinate all activities involving purchases and sales within their respective departments and be in direct liaison with the chief co-ordinator. These directors of purchases and sales are subject to call by the chief co-ordinator for conference in all matters involving the co-ordination of sales and purchases in the various departments of government service. This was the system adopted in the American Expeditionary Forces. It is the exact system existing in many large private industries, which have been formed by the amalgamation of original units located in different parts of the country.

Another co-ordinating agency is the Federal Liquidation Board which formulates policies and plans designed to knit the activities of the several departments and establishments concerned with the liquidation of stocks into a Federal business association to bring about business methods to safe-

guard the interests of the government.

Then there is the organization of Corps Area Co-ordinators. For the purpose of making a practical extension of the principles of the several departments and establishments involved in the Federal Purchasing Board and the Federal Liquidation Board over the entire country, a system of Corps Area Co-ordinators has been created. This Corps Area organization together with the Federal Purchasing Board and the Federal Liquidation Board the latter two located at Washington, enables the entire purchase and supply situation throughout the country to be properly handled.

Other co-ordinating agencies are the Surveyor General of Real Estate, the Federal Motor Transport Agent, the Federal Traffic Board, the Federal Board of Hospitalization, the Federal Specifications Board, the Interdepartmental Board of Contracts and Adjustments.[1]

The Director of the Bureau of the Budget has general supervision over the work of the co-ordinating agencies. These agencies created through the executive order by the President to assist him in imposing of a uniform plan for the routine business of the government are concerned only with such routine business and not with matters of policy. They are for the sole purpose of enabling the President to so co-ordinate the activities of the various departments and establishments that the most efficient and economical expenditure of money appropriated by Congress will be insured.

1. C. G. Dawes: The First Year of The Budget of The United States, p 140.

The Executive Regulations provided by the Budget law to be issued by the President as governing the operations of the Bureau of the Budget have evolved out of the new environment of the Budget Bureau and the determination of the President to use it as an agency to impose Executive pressure. It was impractical for President Harding to make these executive regulations at the inception of the Bureau. Having directed the Bureau to proceed along certain lines, he has issued such regulations as he considered necessary in the light of the information supplied him by the Budget Bureau.

These Executive Regulations were authorized both for the purpose of outlining the method of procedure under the terms of the Budget law and for the purpose of creating machinery for the transmission of the Executive policy and control over the business of the government.

The Cabinet is one agency for the establishment of the Chief Executive's business policy. He has made the Bureau of the Budget another agency for the conduct of routine governmental business. The co-ordinating agencies which he created are also means of bringing to the departments the President's policy in regard to governmental routine business.[1]

The purpose of the Budget and Accounting Act is to enable the President as the responsible head of the administration of the government, to present to Congress an annual business program which shall contain the necessary information

1. The Budget, April 1923, Vol. II. No. 2.

concerning the financial requirements of all the departments and establishments of the government, and the resources from which this program of expenditures may be met in such form as to indicate clearly the application of business principles to the administrative activities of the government.[1]

One of the most important factors in the making of the Budget lies in the accounting system. Keeping accounts has two objects: (1) To furnish an open record of financial transactions of the officers of the government charged with the responsibility of spending the public money; and (2) to furnish the means of holding the disbursing officer to the faithful discharge of his duties. The first is concerned with information and the second with control, the control being exercised through operating on the accounts. The Budget Bureau is concerned with the information feature of accounting while the control aspect is the concern of the General Accounting Office. The records of the detailed receipts and expenditures of public money should be kept in accordance with some uniform classification in order that: (1) the requirements of the different departments and establishments may be readily compared; (2) statements of expenditures for the same objects may be stated in the same terms in each spending office, thus facilitating rapid and intelligent examination and control; (3) to furnish a basis for the estimates; the appropriation acts, the reporting of financial data, and the audit - all upon a uniform system;

1. Report of General Roop Assistant Director of The Bureau of the Budget. July 1, 1922.

and (4) to enable a concrete picture of the total financial operations of the government to be assembled in a short time. This facilitates the examination of the Budget by Congress and eliminating the necessity for much detailed examination of witnesses. Such a system will enable the Comptroller General to prepare comparative statements of the operations of the various departments to show Congress where improvement is required. It will also allow a comparison of the actual expenditures with the estimates upon which the appropriations were based, not simply by total or in broad classifications varying with each department, but in detail which will apply equally to all departments. As has been stated before, a system of uniform classification of objects of expenditure which applies to every department was devised by Comptroller General McCarl and put into operation July 1, 1922. This is the first, and a very important, step in standardizing the accounts of the business organization of the government. There are many more steps to be taken before governmental accounting reaches the high plane of private accounting but the first step actually has been taken and the other steps may confidently be expected to follow.[1]

At the end of the first fiscal year of the government, June 30th, 1922, the Bureau of the Budget fairly claimed direct and indirect savings of hundreds of millions of dollars but its primary accomplishment was the overthrow of practices which for more than a hundred years had been making it impossible to exercise real control over the expenditure of

1. Wm. P. Hehn, Jr.: Real Accounting for the U.S.A., The Budget, July 1, 1922 - Vol. I. No. 5.

public money. This was done through the setting up of various co-ordinating boards.[1]

July 1, 1922 General Lord succeeded General Dawes, who had agreed to act only for one year, as the Director of the Budget. At the second annual meeting of the Business Organization of the Government General Lord emphasized the fact that the "policy of the Bureau of the Budget will be co-ordination and not domination, co-operation and not compulsion."[2]

General Lord has continued with General Dawes' program of economy and efficiency, cutting the estimates for the fiscal year 1924 as low as consistent with proper functioning of governmental business and in addition General Lord has evolved a plan of departmental general reserves which should prove helpful as a preventative of deficiency bills.

Section 203 of the Budget and Accounting Act permits the submission of supplemental or deficiency estimates authorized to meet necessary expenditures. One writer aptly terms the deficiency bill "the slopover of inefficiency in administering our Nation's finances."[3] It is the difference between what our executive departments and boards of estimate they will spend in a year and what they actually do spend.

Congress has apportioned so much money for this, that, and the other department, board and commission - usually a generous allowance - and gone about other business, apparently believing that sufficient money had been provided to pay national expenses for a year. Then, long afterward, Treasury

1. The Budget: August 1, 1922 - Vol. I. No. 6.
2. Ibid.
3. Wm. P. Hehn, Jr.: Fighting the Deficiency Diagon, The Budget, Sept. 1, 1922, Vol. I. No. 7.

and Congress have been presented with additional bills. As the deficiency then had already been incurred by officials or as the alternative was to discontinue certain or even many important governmental activities, Congress has given the money and the Treasury has had to provide it. This means more taxes. Our tax burden already is so heavy that any addition to the amount we are called upon to provide, once Congress has appropriated and the Treasury arranged its affairs in accord, comes with exceedingly bad grace. This deficiency bill has no place in modern business methods. It is an additional and unnecessary burden to the public and must go.

General Lord has worked out a method to eliminate the Deficiency Bill. The method he has taken is one which has worked out previously in the War Department where he handled finances before his appointment as Director of the Budget Bureau.

Briefly the method is this: Every branch of the Department, must arrange for a certain reserve in making up its estimates. The estimates may not be padded to add this reserve to the normal total; the reserve must be made an actual part of the normal total. Further, it must not be touched, except in emergency and with the approval of certain officials whose approval is extremely hard to obtain, upon any pretext whatever. It is simply what its name states, a reserve.

While connected with the War Department General Lord forced through such a program for reserves and as result

the War Department incurred no deficiency during the year. He believes that what he accomplished in the War Department he can accomplish in every other money-spending agency of the government. At the second annual business meeting July 11, 1922, he announced his determination to carry out this plan. He explained that there is no set rule for reserves but there must be a reserve in every department. His idea is to leave these reserves untouched, if possible, throughout the fiscal year. If they have to be drawn on they are there as emergency reservoirs of funds available only in emergency. These reservoirs will stand between the spending activities of the government and the taxpayer, a safeguard against the deficiency bill. It is not contemplated that the reservoirs shall be drained dry. Grave emergencies may arise to deplete the reserves, but in the absence of such emergencies, the reserves, to a substantial degree, should stand as savings unspent; they should revert to the Treasury during the following fiscal year and, to the extent of their total, lighten the tax burden.

On December 4, 1922 the President presented the second annual Budget of the United States for the fiscal year of 1924 to Congress.[1]

Since its inauguration, the Budget Bureau has reduced the expenditures for the fiscal year 1922 from the sum previously appropriated by Congress for that year and besides this the Bureau has presented two Budgets, the first for the fiscal year of 1923, and the last for the fiscal year 1924. The following figures are summarized totals which appear in the Budget for 1924 and give an idea of the actual sums ex-

1. The Budget, Jan. 1923, Vol. I. No. 11.

pended by the government for public purposes.[1]

	1922 Actual	1923 Estimated	1924 Estimated
Grand Total Expenditures	3,795,302,499.84	3,703,801,671	3,180,843,234
Grand Total Receipts	4,109,104,150.94	3,429,862,959	3,361,812,359
# Estimated Deficiency in General Fund At End of Yr.		1,833,199.37	
Balance in General Fund At End of Fiscal Yr.	272,105,512.63		179,135,925.63

Many people when the new Budget law was first passed prophecied delinquency on the part of the Executive. Their expectations, however, have not been fulfilled, for President Harding from the day the law was passed has striven to administer the routine business of the government according to the letter and spirit of the law.[2]

He called to service as Director of the Bureau of the Budget two men who understood business principles and who applied them to the conduct of public affairs. President Harding's administration will long be remembered as the beginning of the Budget System of the United States. General Dawes gives great tribute to President Harding in connection with his work along budgetary lines. "President Harding," he says, "clear headed, a natural leader, sympathetic, and

1. The Budget, Mar. 1923, Vol. II. No. 1.
2. Ibid.

understanding, he is an ideal chief. His ideas of business are exact. His knowledge of business principles and what must be done to establish them is as profound as that of any great business man. This being so, his larger knowledge of government, political conditions and the state of public opinion, make him the hope, and only hope for a permanent improvement in the government business system. Without him, a mere budget law would mean little or nothing."[1] There is no doubt of the great share President Harding had of the work of promoting economy and efficiency in governmental affairs but due credit must be given to the framers of the Budget and Accounting Law for without that law to support his work President Harding could have done little to introduce scientific business methods into the affairs of the United States. June 10, 1921 will surely become a great date in the history of our government's financial affairs.

1. The Budget, March 1923, Vol. II. No. 1.

BIBLIOGRAPHY

Adams, Henry Carter — Science of Finance
Published by Henry Holt & Co., New York 1898.

Buck, Arthur Eugene — Budget Making
Published by D. Appleton & Co., New York 1921.

Cleveland, Frederick A. & Buck, Arthur Eugene — The Budget and Responsible Government
Published by The Macmillan Co., New York, 1920.

Collins, Charles Wallace — The National Budget System And American Finance.
Published by The Macmillan Co., New York, 1917.

Dawes, Charles G. — The First Year of the Budget of the United States
Published by Harper & Brothers, New York, 1923.

Dewey, Davis Rich — Financial History of the United States
Published by Longmans Green & Co., New York, 1915.

Fitzpatrick, Edward A. — Budget Making in a Democracy
Published by The Macmillan Co., New York, 1920.

Hunter, Merlin Harold — Outlines of Public Finance
Published by Harper & Brothers, New York, 1921.

Plehn, Carl C. — Introduction to Public Finance
Published by The Macmillan Co., New York, 1921.

Stourm, Rene' — The Budget
Published by D. Appleton & Co., New York, 1917.

Villard, Harold G. & Willoughby, Westel W. — The Canadian Budgetary System
Published by D. Appleton & Co., New York, 1918.

Willoughby, Westel W. Willoughby, Wm. F. & Lindsay, Samuel McCune — The System of Financial Administration of Great Britain
Published by D. Appleton & Co., New York, 1917.

Willoughby, Wm. F. — The Problem of a National Budget
Published by D. Appleton & Co., New York, 1918.

PERIODICALS, REPORTS, ETC.

The Budget Vol. I, Nos. 1, 5, 6, 7, 11; Vol. II, Nos. 1 & 2
(Published by The National Budget Committee)

The Budget and Accounting Law, June 10, 1921 -
U. S. Statutes, 67th Congress, 1st Session

62d Congress, 2d Session, Document #854.

Congressional Record: 67 Congress, 1 Session, Doc. #61.

Congressional Record: 67 Congress, 2 Session.

Economic Review, March 1916.

National Municipal Review (July, 1922
(December, 1922
(February, 1923

Nation's Business, June 16, 1913.

Proceedings of the Academy of Political Science, July, 1921,
Vol. IX, No. 3

Reports of the President and the Director of the Budget at
the First Annual Meeting of the Business Organization
of the Government.

Reports of the President and the Director of the Budget at
the Second Annual Meeting of the Business Organization
of the Government.

World's Work, March 1922.

The writer is also indebted to Professor Frederick A.
Cleveland for helpful suggestions.