

Half-Time Budget Methods

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GREAT results were promised from modern budget methods. Professor A. R. Hatton, in editing the volume on "Public Budgets," in *The Annals*, issued by the American Academy of Political and Social Science in November, 1915, said:

It may be made one of the most potent instruments of democracy . . . The budget provides a means through which citizens may assure themselves that their effort which has been devoted to common ends is not used for private gain, is not misused, or frittered away, but is applied to the accomplishment of those purposes which the community approved and is made to produce the maximum results for the efforts expended.

During the fifteen years since modern budget methods were inaugurated in New York City, through the efforts of the New York Bureau of Municipal Research, the budget has been one of several administrative reforms that have contributed to the present high effectiveness particularly of city government. Combined with adequate accounting, centralized purchasing, capable civil service, and standardized salaries, plus the elimination of ward elected councils and partisan national politics, an entirely new spirit has been brought into municipal housekeeping.

But the budget has not become one of the most potent instruments of democracy,—not that Professor Hatton was wrong as a prophet, but because the public cannot make full use of the instrument in their hands. Budget procedure has stopped halfway in its development. Accomplishing magnificent results in its inception, the special-

ists in administration either have been satisfied or have found the second half of the task too difficult.

WHAT THE BUDGET HAS ACCOMPLISHED

As a deterrent to reckless expenditures, modern budget methods, as applied in city government, at least, have produced decidedly tangible results.

Appropriations represent an administrative program. This improvement has been expedited through the adoption by several hundred cities of city manager or the strong mayor-council type of government, which place both fiscal and administrative responsibility directly upon the executive. It is now unusual to find a city budget prepared by a committee or committees of the council who are unfamiliar with departmental needs, who frequently have political axes to grind, and who are not actually responsible for the conduct of government. The chief administrative officer prepares a fiscal program and presents it to the legislative body for adoption or amendment, which usually means a carefully prepared plan of expenditure.

Expense is limited to revenue. Perhaps the most severe criticism leveled at former methods of appropriation was the frequent absence of correlation between anticipated revenue and anticipated expense. Even were some effort made to secure a statement of anticipated revenues, in the absence of centralized responsibility, no one could be found willing to assume responsibility for reducing departmental estimates to such estimates. Frequently

the entire requests were allowed with the verbal warning that revenues must not be exceeded, an admonition more honored in the breach than observance. Modern budget procedure has eliminated this source of extravagance.

The budget is classified in understandable fashion. Ten years ago, to paraphrase Mr. Henry Bruere, who had much to do with budget development, the average appropriation was a license to spend public funds, with only such restrictions as were imposed by general descriptive titles of appropriations or specific statutes. Frequently, the unit of appropriation was the department, and in a single appropriation, as in Philadelphia in 1911, were to be found funds for postage stamps, stenographic salaries, and oats,—whether wild or tame not specified. Committees from the Board of Commerce or other civic agencies could mull over such an appropriation item to their hearts' content, learning little about the operations of the city or the efficiency with which such operations were conducted.

Modern city budget procedure requires that budget requests shall be classified:

- A. By department,—police, health, etc.
- B. By fund,—police, health, welfare, etc., when such segregations of moneys are prescribed by charter. Such funds are a relic of times when specific tax levies or revenues were segregated for specific purposes, and now serve no valuable purpose.
- C. By activity,—for police as to street patrol, traffic control, etc.,—in order that the value of city activities may be weighed one against the other.
- D. By character,—current operation and maintenance, debt service, capital outlay, and deficit.
- E. By object or purpose,—personal service, supplies, contractual service, equipment, etc., each of these

being further subdivided as may be necessary. Such a classification compels the departments to speak the same language in making requests; items of a similar character can be compared over a period of years; and the purchasing authorities of a city have a guide by which to formulate their purchasing plans for a fiscal period.

This is a brief outline of the procedure that has been adopted with modifications here and there, by most important governmental units. With it has gone the requirement that there be furnished to the fiscal authorities comparative data of preceding years which will indicate the trend of governmental expenditures, and the supplying of such supplementary information as will permit an intelligent consideration of municipal services as a whole,—financial reports, status of improvement projects under way, encumbrances of funds, balances available, inventories, bonded debt condition, debt limits, bonds authorized but not issued, etc. Finally, there is normally a summary statement with increases and decreases, particularly as relating to personnel and its compensation. This last is particularly valuable when there is a standardization of salaries and grades which permits a comparison of employes and compensation within definite schedules.

Anyone interested in the detailed procedure by which these ends are accomplished is referred to the numerous articles in the budget volume already mentioned. Budget procedure has not changed materially since this volume was published and the articles stand as valuable now as they were when written.

In brief, this system, which may be made the most potent instrument of democracy and which is to bring about

a thoroughgoing control of public expenditures, has actually accomplished the following,—provided that city appropriations be definitely formulated by a responsible administrative officer in the form of a fiscal program; that this program be measured by and be kept within revenues available; and that requests made by the departments be presented in terms understood by the legislative body and by citizens who ultimately pay the bill.

WHAT THE BUDGET HAS NOT ACCOMPLISHED

Yet in the face of this modernized method of handling public funds, there has been a constant aggravation of expenditures. Professor David Friday has pointed out that in the single state of Michigan, between 1911 and 1921, city taxation increased from \$12,000,000 to \$49,000,000. In Detroit alone, the tax budget increased from \$7,000,000 to \$40,000,000 and the net debt from \$8,000,000 to more than \$100,000,000. In the decade from 1900 to 1910, Detroit's population a little less than doubled, while tax collections doubled, as did the debt. In the decade following, population doubled again, and taxes were multiplied by five and the debt by ten to fifteen.

Frequently this increase in cost of local government is charged to the unprecedented undertaking of new activities,—to frills and fads,—“the constant and increasing pressure upon government to undertake more and more and to leave less and less to private initiative and responsibility,” to quote a recent editorial of the *New York Times*.

In reality this increase in expenditure has its origin in the recent common use of steel for construction purposes; the adaptation of electricity to lighting, manufacturing and transportation; and the development of the automobile and truck. There were big cities before

these inventions, but not complex and expensive cities. Skyscrapers, loft manufacturing, and rapid transit have required high pressure fire protection, traffic control, safety engineering, and more police. The automobile has brought more traffic control, street widening, and heavier pavements, plus new efforts by the health and police authorities to check the spread of disease and crime that this form of rapid transportation facilitates. Also when the mechanic rides in his own jitney and enjoys necessities that were luxuries a generation ago, he is not adverse to the city building parks and boulevards, lighting streets, and providing free education equal to the best that can be obtained privately. With these higher standards of living has come apparently a finer concept of social justice, as seen in supervised playgrounds, free clinics, regulated commercial recreation, better prisons, more adequate disease control, and unemployment relief.

This recent progress is largely responsible for the extension of city activities and expenses. Detroit, typical of the large and growing city, once limited its activities to those common to local government since the beginning of history. They consisted of a legislative and an administrative authority; a system of assessing, collecting, and disbursing taxes; means of apprehending, judging, and correcting offenders against the public peace; maintaining highways; rudimentary protection against fire; and the providing of elementary education. At first the increase in number of city activities was gradual and had to do with the diversification of long accepted activities. Public works grew from street grading to the construction and maintenance of paving and sewers. Constables were supplanted by paid police, including inspectors of weights and measures,

sanitation officers, harbor patrol, and detectives. A volunteer fire department became a paid institution. The elementary school system was expanded to include evening and high schools.

Since 1910 seventy activities have been added, as compared with 114 new activities assumed during the entire ninety years preceding. These newly established activities are now important city services, and include nutrition of school children, prison farm, psychopathic clinic, tuberculosis camp, maternity hospital, medical college, women police, extension of probation, continuation school, city planning, community centers, junior college, control of grade separation, vice control, school gardens, hospitals, education of the blind and anemic, and civil service,—to mention a few.

Curiously, these new activities are not as costly as the expansion and "doing better" of old ones. For example, in 1922 ordinary elementary and high school education cost four-fifths the school budget. This leaves less than one-fifth for new educational activities,—the "frills,"—kindergartens, evening and summer schools, junior college, special schools, etc.

This raises the question as to how far new activities can be added and old ones expanded in the next ten years,—since larger cities are approaching the limits on real estate taxation. Apparently such economy cannot come through the elimination of frills, and citizens will be reluctant to curtail old and established functions. However, efficiency is still applicable,—not the efficiency that concerns itself only with improving the mechanics of operation, but the efficiency that will challenge these operations and evaluate their worthwhileness.

Courage to question the efficiency with which established activities are

conducted requires an unusual fact basis, and it is exactly this fact basis that modern budget procedure does not provide. Modern budget procedure has created definite fiscal programs and kept those programs within the limits of available finances; and has afforded numerous opportunities for trimming minor items here and there, large in the aggregate, but not sufficient to effect the marked trend of city expenditures upward. *The average city official confronted with the budget finds nothing in it that enables him to determine in a large way the value of the activities that are rendered the public, or in a lesser way the degree of efficiency with which such activities are conducted.*

WHAT THE BUDGET SHOULD ACCOMPLISH

Modern budget procedure, valuable as it is, does not meet entirely present requirements in the following respects:

The activity rather than function should be made invariably the unit of appropriation. For example, police protection is a function of government. Foot patrol, traffic control, and detection of crime are among the principal activities that constitute police protection. Neither legislators nor the public can measure administrative emphasis unless such activities are authorized and adhered to. The frequent comparisons of police departments on the basis of area or population are almost worthless unless the relative strengths detailed to traffic, detective, harbor, sanitation, and clerical forces are known. Police departments are only illustrative. The same principle applies generally.

This principle has been well understood since the beginning of budget improvement, but has not been well executed. City departments are not anxious to carry segregation in any further detail than required and there

is a constant incentive to eliminate activity in favor of departmental appropriations. The average city that definitely accepts an activity classification finds it obsolete in a few years unless efforts are made to keep it up to date.

The budget should present a complete picture of what is hoped to accomplish ultimately by governmental means. Few know whether departments are doing 100 per cent of the task assigned to them. For example, health departments do not state the practical minimum death rate that can be expected, the cost in dollars to secure that minimum, and the plans for accomplishing that ideal. Similarly, the percentage of the recreation problem being met is unknown; and so forth. In consequence, cities take on activities that they are not in a position to assume completely, and seldom know how close they approach to assuming them.

A request for funds whether to secure a low death rate, clean streets, or the use of playgrounds, has no quantitative value until compared with some other figure. To this end, a request should be accompanied by a statement of exactly what ideal is to be anticipated in that particular service; what percentage of that ideal can be achieved through the appropriation requested, and leave the ideal open to criticism by those who may not be as enthusiastic about the project as the specialist in charge.

The budget should be expressed in terms of work to be accomplished as well as in material things to be purchased. Administrative officers seldom amplify requests with definite statements of work to be done—of a specific number of visits by nurses, of so many lives that will be saved, so many more miles of streets to be cleaned, and recreation provided for so many more children. These matters may be discussed in-

formally and incompletely before the legislative body, but they are seldom set down in intelligible shape for public information. It was a great improvement in budget making when lump sum appropriations were broken into a uniform classification of things to be bought. The next big step in budget making may be putting these segregated items together again in terms of actual results to be secured. The merits of such a proposal are obvious.

The budget should include the unit cost of work done and estimated unit cost of work proposed. Private business through the income statement and balance sheet has automatic measures of its operations. Public business has no such automatic and definite measures. There is no profit or loss, and surpluses and deficits are not necessarily an indication that an administration has been good or bad, but only whether there has been a careful adherence to appropriations. The public balance sheet, when it exists, does not furnish even a rough criterion of efficiency and adequacy of services. Further, there is no competition in public business, which is the great stimulus to effective and wasteless operation in private business. Rarely is a city in direct competition with private industry, and when it is, the operating figures are usually too obscure to permit comparisons. Therefore, an effective budget must be based upon unit cost figures so framed that comparisons can be made between years, between sections of the same city, and between similar cities. Departments will then support budget requests with statements of unit costs of work done, with proper comparisons, and the reason for decreases or increases.

These facts in connection with the production of services for the benefit of the public are as essential as they are in the manufacture of automobiles for

the mutual benefit of the public and stockholders. The only reason these facts have not been developed is because the public has furnished practically unlimited funds for which no detailed accounting has been necessary.

The budget should be supplemented by an operation audit that will measure the effectiveness of expenditures as thoroughly as financial audits measure the legality of expenditures. Every year cities spend thousands of dollars seeing that expenditures are not made unless properly authorized, in examining the additions of vouchers, and in assuring the public that their servants have been honest in the strictest sense of the word. But scarcely a penny is spent for auditing operations, in checking the effectiveness of these honest expenditures, in indicating the amount of work produced, and in assuring the public that their servants have been efficient as well as honest.

Lastly, the budget should be supplemented with operation reports. Facts cannot be gotten annually for the appropriation ordinance unless facts are currently available for administrative guidance. If the administrator knows daily the units of work and the unit costs of such work, he is in a position to check daily the operations of subordinates. He may have before him daily, monthly and yearly, consolidated statements of such operations which will permit him to modify his methods and meet the exigencies of occasions. Such consolidated reports coming from every department and

covering every activity of the city, will furnish a clear statement of the progress of departments from day to day, week to week, and month to month. Given to the press and to the public, these operating statements will furnish a control over expenditures at present unknown.

Such operating reports also will furnish somewhat adequate tests of effective government. Perhaps the next job for the applied political scientists is to set up certain definite standards which will enable us to take cities of comparative size and locations and evaluate the numerous activities of each, giving a proper ranking for each subject. Nothing will stimulate the public official more than to know that his work is not only being measured by the work he did last year, but by the work similar officials did in other communities.

In summary, budget procedure is designed to control the fiscal operations of government in two ways: first, by requiring that its programs be undertaken after mature thought; and second, by requiring that these programs be carried out with economy and efficiency. To date, budget procedure has gone about half way in making these controls effective. Budget procedure now works during the few months that the preparation of the budget is actually going on, then it stops, leaving the most important evaluations unsecured. It is a half-time budget procedure. The next step is the development of budget procedure on a full time basis.