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THE EXECUTIVE BUDGET IN RELATION TO GOVERNMENTAL ACCOUNTING

"THE SINEWS OF WAR"—AND PEACE!

ONE OF A SERIES OF LECTURES IN A SYSTEMATIC COURSE

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THE EXECUTIVE BUDGET IN RELATION TO GOVERNMENTAL ACCOUNTING

“THE SINEWS OF WAR”—AND PEACE!

How can “sinews of war” have anything to do with “The Executive Budget”? Why should peace be contrasted with “sinews of war” and then correlated to the government?

“Sinews of war” is old as a quotation, almost as old as war itself. The financing of the belligerent powers is before our eyes, the “sinews” peer at us from the pages of every paper. We, as people, are interested in these sinews not primarily as those of war but as those of *peace*.

How ought we to be interested intelligently in the sinews of peace, then? What demands ought we to make upon our government so that we, the citizens, may be more intelligently informed and so that we may be more efficiently served by the ever-spreading branches of the government of the nation?

There is a term now in common use which is the key to this desired information and to this efficiency. It is a much abused term and a much misunderstood term. It is expressed in the shortest way by the word “budget” or, better, by the words “the executive budget.”

What then, is an “executive budget”? Why should such a dry-as-dust appellation be emphasized as an all-important function of government, now almost wholly neglected?

It is evident that we can get no further without a definition of a budget—of an executive budget.

In a report recently issued by a committee of the Chamber of Commerce of Boston upon the "State Budget System" it was said:

Boiled down, the question of a state budget is simply the application of common sense to the state's financing. Common sense dictates that before the annual appropriations are made, careful estimates of the probable revenue available and of the probable expense to be met should be at the service of the authority which recommends and the authority which determines expenditure. The recommending authority should adopt a comprehensive plan; such a comprehensive plan is a budget.

In a publication of the Bureau of Municipal Research of New York of January, 1916, in an article upon "The Budget Idea in the United States" the following definition of a budget is given: "A plan for financing an enterprise, or government, during a definite period, which is prepared and submitted by a responsible executive to the legislative body whose approval and authorization are necessary before the plan may be executed." In explaining this definition it is stated that the idea "budget" is classed as a "plan" instead of a "document" or a "statement" for the reason that it is in the nature of a definite proposal calling for approval or disapproval. It is differentiated from other plans by the requirement that it must be "prepared and submitted by a responsible executive." Another essential is that it must be submitted to a "representative body whose approval and authorization are necessary before the plan may be executed." Each of those qualifying phrases is full of meaning and each is necessary to budget practice.

One thing that has been conspicuously lacking in our own government's business has been the element of careful, understandable, and reasonable planning. This

lack has been an incident of invisible and irresponsible government. With this difference clearly before us we may get away from the misapprehensions which have been prevalent as to what a budget is. In the first place a budget is not merely a statement of estimates of expenditure. Such a statement of estimates of expenditure is a part of a budget, but it is only a part. In addition to these estimates of expenditure, which should be prepared by the executive departments who are to be authorized to expend the money when final appropriations based on these estimates are made by the legislative body, there must be estimates of revenue for comparison with the expenditures. There must be a financial plan for taking care of any deficit which such a comparison of revenue with expenditure may exhibit. There must be a further financial plan for borrowing money intended for capital expenditure: such is necessary and required by the estimates and proposed appropriations. In order to determine intelligently whether the estimates as presented are fairly presented, both for revenue and expenditure, other statements must be provided showing what the actual revenues received have been for two or more recent years in the past, and in the same way similar statements of what the actual expenditures have been for two or more years in the past. Further than this, there should be other statements showing what the appropriations have been for two or more years in the past so that comparisons may be made (1) between the actual expenditures and the corresponding revenues of those comparative years; (2) between the actual expenditures and the appropriations granted in those comparative years; and (3) between the estimates of revenue and the actual revenue received during those comparative years. Each one of these comparisons would have its particular weight in determining whether

or not the estimates for the new fiscal year are reasonable, and therefore whether or not the final appropriation bill which actually authorized the expenditure of the money should be based upon it.

The report of the committee of the Chamber of Commerce of Boston, to which I have referred, includes among other excellent recommendations a quotation from a report of the Commission on Economy and Efficiency of Massachusetts:

3. That the Governor submit to the General Court not later than the first Monday in February a *budget* containing all estimates and requisitions with his recommendations as to the amounts which should be granted and the amounts which, in his opinion, should be raised by state tax and by loans, if any.

The committee of the Chamber of Commerce says "we concur in these recommendations subject to the reservations which we shall mention." Then it goes on to say that the "supervisor of administration would naturally be selected as a member of this commission." The best method of selecting the other members of the commission is more difficult to determine. They might be appointed by the treasurer, or the state treasurer and auditor might be utilized; after careful consideration of these suggestions, we are inclined to the opinion that the best working commission—the one which would fit best into our present system—would be composed of the supervisor and the two chairmen of committees on ways and means of the Senate and House. The report further states:

In most of the discussions upon this subject, the explanation has been upon the executive budget. A strictly executive budget in Massachusetts would be a budget for which the Governor assumed the whole responsibility. This idea has its advantages but with our system of annual elections it would frequently be impossible that the Governor should have the necessary knowledge of the State's finances—even when he happened to have

the necessary financial ability and inclination to deal adequately with the responsibility. We think the budget would carry more weight if the entire responsibility for it were definitely placed upon a commission such as we have suggested.

This point is the nucleus of the whole matter in my opinion. It happens that I have had quite a little practical experience in the matter of budgets, running over a number of years; first, in the municipal budgets of many cities in New England and in other parts of the country; second, for portions of three years in the United States government at Washington, particularly upon President Taft's Commission on Economy and Efficiency. This commission originated in this country the fundamentals of an executive budget and upon its conclusions and publications practically all the work which has been done since in our various states has been founded. One of the most striking results attained so far in action by the people upon their fundamental law has come in the state of Maryland. An amendment to the constitution of the state, enacted last winter by the legislature, both branches, and submitted to the vote of the people at this last election in November, has been made a part of the constitution. This amendment was brought about because of the deplorable financial condition of the state's treasury, which was exhibited in reports which I was called upon to make, acting as expert for the Commission on Economy and Efficiency of Maryland. A deficiency of two million dollars or more was shown to have been incurred in the general funds of the state. Moneys required by law for special funds, which under the law could be used only for these special purposes, had been infringed upon for the general purposes of the state without knowledge of the legislature which so infringed them, because of the lack of a proper budget system and the corresponding

lack of information in regard to the actual conditions of the finances.

Such lack of information is prevalent in all our states throughout the country, even in such states as Massachusetts, which has always been far in the lead in matters of financial import. One cannot actually tell to-day where the state stands, nor will one be able to tell how its finances are going to stand at any time in the immediate future until a complete budget system is introduced. The only way by which a budget system can be introduced, in my opinion, is by amendment to the present constitution, following in the main the amendment which was so carefully worked out for Maryland and which has already become the object of emulation in many other states throughout the country. Massachusetts is only one among these others which will introduce into their fundamental laws—the state constitutions—requirements of a kind which cannot be avoided by either the executive or the legislative branches.

To make clear what I mean, I would say that an amendment to the constitution of Massachusetts, which is intended to provide for proper installation of a budget system, must require that the budget shall be prepared under the authority of the executive, that is, of the governor; that it shall be submitted by the governor with full responsibility to the legislature; that the legislature shall act upon the budget as proposed by the governor, but shall act with restricted authority; that is to say, it shall have authority under the amendment to the constitution to *reduce* any item of the budget but not to *increase* any item or to transfer an amount from one item to another. This means that the governor will be held to strict accountability for the preparation of his financial plan for the state. He will be supported and assisted by whatever means are

necessary so that a reasonable plan may be submitted in proper form at the proper time. Thereupon the legislature shall consider this financial plan, item by item, and take such action on each item as seems wise to it, and finally the appropriations shall be actually passed by the legislature, after due consideration of the items in its committees, to whatever extent is necessary and reasonable. The fundamental feature of the effective budget is the laying of the responsibility for the submission of the budget upon the executive, not upon the legislature and not upon a commission composed partly of members of the legislature. Any such distribution of responsibility, partly on one and partly on the other branch, would completely destroy the advantages which we are now expecting to gain from introducing budgetary procedure. A commission made up partly of the executive (particularly if the governor should not be made the absolute head of such a commission), and partly of members of the legislature, such as is recommended in the report of the Boston Chamber of Commerce, would imply a failure of the movement from the very start. I wish to draw this conclusion as clearly as I can do it and I wish to base it not only on my own experience in the various states and in national government investigations but upon the experience of every country of the world where parliamentary government exists and budgetary procedure is followed. What is the budget procedure in England, or France, or Germany, or Russia, or Japan? It is that the executive—the government then in power—presents to the legislature a carefully planned and thoroughly thought-out statement of proposed expenditures and proposed revenues, and the legislative branches, that is, the parliaments as a whole, are required to act upon the items of this budget as proposed by the executive to reduce any of the items if they see fit to reduce

them, but not to increase any of the items or to throw out of balance—in the way of incurring a deficit—the executive's financial plan, which has been submitted to it.

The fundamental proposition, therefore, in real budgetary procedure is the laying of the responsibility wholly upon the executive for the preparation of the financial plan and wholly upon the legislature for the final passing of that financial plan and appropriating the money therefor in accordance with the various items submitted. If the legislature considers any of the items unnecessary they may reduce them but they shall not introduce new items, nor increase the amounts of the items which have been submitted. Such procedure prevents "log rolling" in methods of getting appropriations. The Public Building Bill recently in the United States Congress is a very plain example of what these log rolling movements mean. These political schemes of our legislators, the "you tickle me and I'll tickle you" sort of thing, must be done away with absolutely if we are to have common sense and justice in financial planning for our states, and similarly for our cities and for the nation; but at the moment we are considering only the states.

The next thing to emphasize, after the one which I have put first, may well be this one: that the executive's power to interfere with any department of government with which he may not be in sympathy, through refusing to put into the budget a requirement or appropriation for such department, must be prohibited. It has been prohibited in the Maryland amendment. We must recognize that there will always be emergencies and contingencies which cannot be provided for in the budget even though a considerable sum may have been set aside in the budget for such contingencies and emergencies. Frequently some new necessities will arise in the course of the fiscal

year which will require immediate action and immediate appropriation. In the Maryland amendment it is provided that such emergencies or contingencies may be met by an appropriation by the legislature, provided that only one such subject be considered in any one act, and provided further that in the same act in which the appropriation is made, a provision for revenue by taxation or otherwise, or a definite provision for borrowing money to meet this appropriation, shall be included. Unless such a revenue or borrowing measure is included in the act of appropriation, the latter shall become null and void. In other words, the appropriation shall have no effect unless the legislature provides money from new sources whereby the appropriation can be paid. This is equally fundamental with the first point on which I have laid so much emphasis.

The legislature ordinarily is left free to make appropriations by inserting the words "out of any moneys in the treasury not otherwise appropriated." This has been the cause of more financial disaster in our governments, municipal, state, and national, than any other I can think of. It is, on its face, absurd. We all know, and every executive knows if he stops to think a moment, that there is never any money in our treasuries which is not already appropriated. Every dollar in our treasuries at any one time is always appropriated and much more than the actual balance is reserved, because the larger part of the revenue, which has yet to come in, has already been sequestered by the appropriations which previously have been made. Therefore to put in such a clause as I have quoted is rank nonsense and it should be determined by our courts that the use of such a clause renders any appropriation null and void. This is not the way, however, in which our legislators and executives, perhaps even the courts, have determined it heretofore. They have acted as if it really did mean something and

they have gone ahead and spent money on the basis of it. It is, in fact, the usual custom; it is done all the time—spending money out of the treasury which has already been appropriated for other purposes. If we are ever to have proper budgetary procedure and to have common sense in our financial affairs in any state, that absurd phrasing in legislative enactments must be done away with completely. In place of it we must have a definite presentation of the revenue sources or the borrowing sources from which the money is to be obtained in order to provide for every appropriation which is made for an emergency or contingency by the legislature. This is the second important proposition.

Now the third proposition, while not so fundamental, is still quite important, namely, that the executive shall not have power to determine the budget so far as the pay of the legislature and the pay of its employees are concerned. That part of the budget shall be left to the legislature itself to determine and the executive shall simply O. K. whatever provisions are made by the legislature and put them in as parts of the budget. The governor shall be required to do this but he shall be also permitted to exercise his veto power upon items of such legislative budget, if such items seem to him unnecessary or extravagant. His veto would, of course, be subject to reversal by a majority, or two-thirds, of the legislature as is now required. Further than this, he should have no power over the judicial budget, particularly the budget pertaining to the courts. The budget for the courts should be made mandatory upon the governor through provisions for financial estimates by the auditor or comptroller of the state. These shall be passed up to the governor and included in his budget in the same way that the legislative portion is to be included, but the judicial appropriations should be sub-

ject to reduction by the legislature and also subject to executive veto.

Now we come to the fourth important matter. It is this: that the budgetary procedure shall consist of a number of steps. The first step should be the production of estimates by the heads of departments and by all individuals or associations who expect to obtain money from the state during the coming fiscal period. These should be very carefully and thoroughly prepared in ample time before the meeting of the legislature so that they may be inspected by the governor and so that they may be referred by him to a committee, or by a commission or department of supervision whereby as many as possible of the weak points may be brought out. Then these estimates are to be sent forward to the legislature by the governor, but not, however, as his "budget," for these are merely *estimates*, drawn by the departments of the government, by its institutions, and by people and associations that desire to get money from the state treasury. The governor does not take responsibility for these estimates. In the first place he looks them over and, with the advice of his supporting boards, he does the best that he can with them and then turns them in to the legislature. This is the first step. The second step is for the legislature to consider these estimates in "committee of the whole." This is fundamental. It is a very wide departure from our present procedure but not as wide as would appear at first stating. The advantages of considering these estimates in committee of the whole of the legislature are very great. There is the publicity, wide publicity. In no other way can there be such publicity for these estimates. This is the way in which budgetary procedure goes on in all countries where such procedure is attempted. Our present methods do not follow it. We

turn over these estimates to committees of the legislature who consider these items separately at sessions and hearings and ultimately report them back to the legislature. All such investigations by committees of the legislature are exceedingly important. We are not desiring to diminish this importance but we are desiring, before such discussions in the committees, that there be thorough ventilation of the whole scheme of the expenditure, of the whole plan of work for the state for the ensuing fiscal year, in the legislature as a "committee of the whole." Such action will take time without doubt; it will take a lot of time; it may take as much time as is now consumed by the committees who report upon these subjects after weeks of hearings and investigations. But, if properly handled, no more time than that will be taken. In no other way can time be better taken for the benefit of the whole people of the state, for the conservation of its revenues, for lowering the tax rate, for the saving of waste and extravagance, and for the replacing of nonsense and chaos in our financial methods by common sense and scientific accuracy.

Now these four points are the ones which my experience, and I think I may safely say the experience of all successful budgetary procedure, have established. They may be recapitulated as follows: First, laying of responsibility wholly upon the executive for the preparation of a financial plan, and wholly upon the legislature for the final passing of that financial plan and for appropriating the money therefor. Second, prohibiting interference with any department of government, with which the executive may not be in sympathy, by requiring the governor to put into his budget appropriation for every such department already established by law. Third, prohibiting the executive from determining the budget so far as the pay of the legislature and of its employees is concerned; similarly the judicial

budget. Fourth, proving that the budgetary procedure shall consist of a number of steps, among the most important of which is consideration of the various estimates in committee of the whole by the legislature. The publicity thereby incurred will so educate the governor and the legislature and the public that thereafter the governor can properly present to the legislature his real "budget."

It is usual in many states that the governor does not present a complete budget, he merely passes along estimates, which have come to him from the heads of the various departments and from those requiring assistance from the state. It is proper that the governor should not take responsibility for these estimates until after full discussion has been had in committee of the whole in the legislature. In the light of that public discussion the governor then proceeds to draw up and present to the legislature a real "budget," in which are included his recommendations for appropriations, based upon the estimates modified in the light of the discussions, and also his plan for raising revenue or borrowing money necessary to provide for these appropriations. It is then that the real budget comes into being. It is then that the governor exhibits comparisons with previous years both as to revenues and as to expenditures, so that the legislature will have before it (a) the net results of its previous deliberations, (b) all the information which the executive department can get together, and (c) all the comparisons which are necessary to an intelligent comprehension of the whole situation. The legislature can then act intelligently upon each item of the budget, either through reports from its committees as is now done, or if certain subjects have been sufficiently threshed out in committee of the whole, they may be passed immediately. This will be the case in many subjects. For instance, all "fixed charges," such as the provision for interest on public debt, the provision for sinking funds,

the provisions for direct payments upon the public debt, and many other requirements which are fixed in their nature, can be adopted by the legislature promptly, thereby eliminating such items from further discussion. It should be required in the legislature that it shall give its attention wholly to the budget, as soon as it is submitted by the governor, such attention to be continuous until it has been determined and passed. Only after the "budget" features have been finally acted upon, may the legislature take up questions, relating to contingencies or emergencies, for special acts of appropriation—each one of which must contain provisions for revenue to offset the appropriation in the manner set forth above. These considerations should be applied, each in its place, to all governmental financing whether municipal, state, or national.

TEST QUESTIONS

These questions are for the reader to use in testing his knowledge of the lecture. The answers are not to be sent in to the University.

1. Quote several definitions of the term "budget." Combine what you consider the essentials of these definitions in an original one.
2. In the case of the state or of the nation, who prepares or should prepare the budget?
3. What has been the conspicuous shortcoming in the preparation of our national budget? Reasons for this.
4. What does the author mean by "invisible and irresponsible government"?
5. What steps are made necessary in the preparation of a budget by the amendment to the constitution of Massachusetts?
6. Why allow the legislature to reduce but not to increase items in the budget, and why not allow the introduction of new items?
7. What provision is suggested to take care of emergency financial needs?
8. Show weakness in the usual legal phrasing of emergency appropriation.
9. What method of curbing the power of the executive is suggested in the event that he desires to cripple a department with which he is not in sympathy by depriving it of funds?
10. How is it suggested that this legislative and judicial budget be prepared?
11. Summarize the four essential points or steps to be observed in the proper preparation of a budget.
12. Draw up a model form for a tentative budget to be submitted by the executive to a governing body, such as a city council or state legislature.