INFORMATION TO USERS

This material was produced from a microfilm copy of the original document. While the most advanced technological means to photograph and reproduce this document have been used, the quality is heavily dependent upon the quality of the original submitted.

The following explanation of techniques is provided to help you understand markings or patterns which may appear on this reproduction.

1. The sign or "target" for pages apparently lacking from the document photographed is "Missing Page(s)". If it was possible to obtain the missing page(s) or section, they are spliced into the film along with adjacent pages. This may have necessitated cutting thru an image and duplicating adjacent pages to insure you complete continuity.

2. When an image on the film is obliterated with a large round black mark, it is an indication that the photographer suspected that the copy may have moved during exposure and thus cause a blurred image. You will find a good image of the page in the adjacent frame.

3. When a map, drawing or chart, etc., was part of the material being photographed the photographer followed a definite method in "sectioning" the material. It is customary to begin photoing at the upper left hand corner of a large sheet and to continue photoing from left to right in equal sections with a small overlap. If necessary, sectioning is continued again — beginning below the first row and continuing on until complete.

4. The majority of users indicate that the textual content is of greatest value, however, a somewhat higher quality reproduction could be made from "photographs" if essential to the understanding of the dissertation. Silver prints of "photographs" may be ordered at additional charge by writing the Order Department, giving the catalog number, title, author and specific pages you wish reproduced.

5. PLEASE NOTE: Some pages may have indistinct print. Filmed as received.

University Microfilms International
300 North Zeeb Road
Ann Arbor, Michigan 48106 USA
St. John's Road, Tyler's Green
High Wycombe, Bucks, England HP10 8HR

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

A COMPARATIVE STUDY OF CHANGES IN THE BUDGETARY PROCESS OF FRANCE AND THE UNITED STATES: 1921 to 1971

by

ANNETTE MEYER

A dissertation submitted to the Graduate Faculty in Economics in partial fulfillment of the requirements for the degree of Doctor of Philosophy, The City University of New York.

1978

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

This manuscript has been read and accepted for the Graduate Faculty in Economics in satisfaction of the dissertation requirement for the degree of Doctor of Philosophy.

April 15, 1978
date

Herbert Geyer
Chairman of Examining Committee

April 15, 1978
date

Herbert Geyer
Executive Officer

Professor Herbert Geyer

Professor Harold M. Hochman

Professor Elliot Zupnick
Supervisory Committee

The City University of New York

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

ACKNOWLEDGEMENTS

A very special thanks to

Herbert Geyer
Leon H. Keyserling
Pierre Le Roux
Pierre Tabatoni
Elliot Zupnick

James Abourezk
Blanche Blank
Janine Bourdin
Jacques Bravo
Florence Brill
Walter L. Eisenberg
Solomon Fabricant
Louis Fisher
Genevieve Garment
Harold M. Hochman
Vsevolod Holubnychy
Jane House
Alvin A. Kabot
Adeline Khalaf
Regina Lewis
Nathan Reich
Anna T. Schwartz
Louis Senechaud
Philip R. Shays
Bernard Shull
Kenneth Smith
Maurice Torchet
Lorraine Veach
Melvin White

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE OF CONTENTS

INTRODUCTION 1

PART I. INSTITUTIONS AND ORGANIZATIONS OF THE ECONOMIES OF THE UNITED STATES AND FRANCE

CHAPTER

1 OVERVIEW OF ATTITUDES AND LEGISLATION CONCERNING THE BUDGETARY PROCESS 9

Introduction to PART I (9)--Overview of Chapter 1 (10)--Economy and Efficiency in Budgeting in the 1920's and 1930's (10)--Development of the Modern French Budget in the 1940's and 1950's (14)--Some Essential Differences in Budget Concepts and Institutions (19)--Comparisons of Planning and Programming Techniques (25)--Comparisons of Accounting Procedures (29)

2 ORGANIZATION OF THE ECONOMY AND THE PUBLIC SECTOR 36

Overview of Chapter 2 (36)--Political, Social and Economic Background of France and the U.S. (36)--Theories about Organizations (40)--The Practice of Governmental Organizations (43)--Direct Ownership and Production (43)--Banking and Credit Institutions (47)--Public Accounting Legislation (50)--Theories about Reorganization of Government (52)--Reorganization in the Executive Branch (53)--U.S. Legislative Reorganization Acts of 1946 and 1970 (58)--Additional U.S. Legislative Reforms (62)

3 THE CONSTITUTION AND THE PUBLIC SECTOR 65

Overview of Chapter 3 (65)--Role of the Executive Versus the Legislature (65)--Concerning Financial Laws (71)--The French Constitutional Council and the U.S. Supreme Court (74)-- The French Economic and Social Council and the U.S. Council of Economic Advisers and Joint Economic Committee (76)

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

PART II. GENERAL THEORY AND PRACTICE OF THE BUDGET AND THE BUDGETARY PROCESS

4 PRINCIPLES AND CONCEPTS AND THEIR EVOLUTION 88

Introduction to PART II (88)--Overview of Chapter 4 (89) --Principles of Budgeting (90)--Theories Concerning Budget Policies (96)--Foundations of U.S. Budget Policies (102)--Foundations of French Budget Policies (111)--The Budget and National Income Accounting (113)

5 THEORIES CONCERNING THE BUDGET BALANCE OR IMBALANCE AND ITS FINANCING 117

Overview of Chapter 5 (117)--Theories about Tax Versus Loan-Financed Expenditures (118)--The French "Deficit" Concepts (121)--The U.S. "Deficit" Concepts (122)-- Budget Imbalance and Economic Policy Goals (127)--Modern Versus Classical Views on Government Budget Finance (135) --Techniques of Budget Financing (140)

6 PRESENTATION OF THE BUDGET 147

Overview of Chapter 6 (147)--Legal Requirements for French Budgetary Presentation (147)--Contents of the French loi de finances (1971) (150)--Some Differences in Budget Content (158)--Contents of the U.S. Budget (F.Y. 1969) (165) --Quantitative Comparisons of Expenditure and Loan Accounts and Budget Financing (168)--Contents of the U.S. Budget (F.Y. 1977) (175)--Means of Financing the U.S. Budget (178)

7 CONTENTS OF THE BUDGET OVER TIME 181

Overview of Chapter 7 (181)--Subdivision of French Expenditures (181)--Administrative and Functional Classifications (187)--Extrabudgetary Activities (190)--Tax Expenditures (192)--Role of Income Taxes (193)--Direct and Indirect Taxes 1951-1971 (194)--Trends in Budgetary Receipts, Outlays and Balances: 1921 (202)

PART III. THE BUDGET AND THE BUDGETARY PROCESS IN ACTION

8 THE EXECUTIVE PREPARATION 219

Introduction to PART III (219)--Overview of Chapter 8 (221)--Origins of the Budget Cycle (221)--The Roles of the Executive and the Legislature (223)--The French Budget Preparations and the Spending Ministries (229)--

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

The U.S. Budget Preparations and the Executive Agencies (233)--Estimation of Receipts (236)--Forecasting Expenditures (239)-- Functions of the U.S. Office of Management and Budget (249)--Functions Concerning Budgeting of the French Ministry of Economy and Finance (242)

9 THE LEGISLATIVE VOTE 249

Overview of Chapter 9 (249)--Role of the Legislature in Budget-Making (249)--Restrictions of French Parliamentary Powers (250)--Granting Budget Authority in the U.S. (253) --Voting the Budget in France (256)--U.S. Budget Authority and Its Components (264)--Relationships between Appropriations and Expenditures in France and the U.S. (269)--Zero Base Budgeting in the U.S. (272)--The French System of 1'Exercice (274)--Unexpended Balances of U.S. Budget Authority (275)

10 THE EXECUTION 279

Overview of Chapter 10 (279)--The Budget Year (280)--Rules for Spending and the Balance of Power (280)--Administrative Control in the French System (283)--Administrative Control in the U.S. System (289)--Comparative Differences Between Initial and Executed Budgets (292)

11 AUDIT AND REVIEW 328

Overview of Chapter 11 (328)--Functions of the G.A.O.(329) --Functions of the Cour des Comptes (332)--Relationship Between the G.A.O. and Congress (333)--Administrative Control by the Audit Departments Compared (335)--U.S. Accounting Procedures (339)--French Accounting Procedures (342)---Dual Roles of the G.A.O. (343)--La Cour des Comptes and Budget Review (344)--The G.A.O. and Budget Review (345)--Contrasts in Reporting Information and Irregularities (348)

PART IV. SOME COMMON PROBLEMS IN "EFFICIENCY" AND "CONTROL" OF THE BUDGET AND THE BUDGETARY PROCESS NOW AND IN THE FUTURE

12 EXECUTIVE SPENDING DISCRETION 353

Introduction to PART IV (353)--Overview of Chapter 12 (354) --"Relative" Efficiency (355)--"Normative" Efficiency (356) --Efficiency in the Modern Microeconomic Text (358)--PPBS and Criticisms (359)--A Dynamic View of Efficiency (362)--

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Views of Efficiency by Early U.S. Budget Specialists (362) --Efficiency Relative to the Legislative Process (363) An Emerging View of Efficiency (365)--Efficiency and Stabilization Policies (369)--Expenditure "Controllability" and Stabilization Policy (372)--Impoundment of Funds and Stabilization Policy (385)--Quantitative Evidence of Intra-year Variations in Budget Balances (388)--General Observations on Stabilization Policy Tools (390)

13 LEGISLATIVE SPENDING DISCRETION 394

Overview of Chapter 13 (394)--Alternative Definitions for Budgetary Control (395)--Political Control in the Execution Phase (399)--Political Control in the Authorization Phase: Permanent Budget Authority (403)--Political Control and Government Credit Activities (410)--Political Control, Administrative Control and Budgetary Balances (413)--Theoretical Aspects of Financing Budget Deficits (420)--Practical Aspects of Financing Budget Deficits (424)--Some Quantitative Evidence in Financing Budget Balances (429)--The Importance of Financial Considerations Restated (434)

14 CONCLUDING REMARKS ON THE PAST AND FUTURE OF BUDGET-MAKING GIVEN THE CONGRESSIONAL BUDGET AND IMPOUNDMENT CONTROL ACT OF 1974 437

Overview of Chapter 14 (437)--Major Provisions of the Congressional Act of 1974 (438)--New Functions of the Executive (440)--The New "Congressional Action" Phase (441)--Impoundment Provisions (443)--"Backdoor Spending" (446)--Off-Budget Agencies and Loan Expenditure Problems (447)--The "Tax Expenditures" Budget (452)--Five Year Budget Projections (455) --Lack of Overall Review and Evaluation (460)

PART V. CLOSING REMARKS AND RECOMMENDATIONS

15 FINDINGS: SUMMARY AND CONCLUSIONS 463

Overview of Chapter 15 (463)--Definitions (464)--Organization of the Public Sector (465)--Budget Presentation (472) --Budget Legislation and New Procedures (475)--Specification of Budget Goals and Concepts (478)--Budget Process in Operation (479)--Six Recommendations (481)

SELECTED BIBLIOGRAPHY 484

Articles (484)--Monographs (487)--Texts (491)--Other Works (492)--Public Documents: Statutes (495)--Public Documents: Other Than Statutes (497)

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

LIST OF TABLES

1. Comparative Data on Gross Private Domestic Product in France and the United States: 1951-1971 39
2. Comparative Data on Expenditure and Loan Accounts: Total Budget and Budget Financing 1960-1971 169
3. Comparative Data on Expenditures and Loan Disbursements as Percentage of Global Expenditures and Net Lending as Percentage of Gross Private Domestic Product 1960-1971 . . . 173
4. Comparative Data on Budgetary Outlays in France and U.S. 1951-1971 183
5. Comparative Data on Percentage Distribution of Budgetary Outlays by Category in France and the United States: 1951-1971 185
6. Comparative Data on Budgetary Receipts in France and U.S. 1951-1971 195
7. Comparative Data on Percentage Distribution of Budgetary Receipts in France and the U.S.: 1951-1971 198
8. Tax on Value Added as Proportion of French Indirect Taxes 1958-1971 200
9. Index of Annual Growth in Employment Taxes as Proportion of U.S. Receipts & Relative Shares of Employment & Income Taxes 1958-1971 201
10. Comparative Data on Actual Receipts, Outlays, Budget Balances and Budget Balance as Percentage of Outlays in France & U.S. 1921-1939 203
11. Comparative Data on Actual Receipts, Outlays, Budget Balances & Budget Balances as Percentage of Outlays in France & U.S. 1940-1950 206
12. Comparative Data on Actual Receipts, Outlays, Budget Balances & Budget Balances as Percentage of Outlays in France & U.S. 1951-1971 208
13. Data On Actual Receipts, Outlays, Budget Balances and Budget Balances as Percentage of Outlays in U.S., Fiscal Years 1972-1977 210
14. Comparative Data on Outlays, Receipts and Balances as Percentages of Gross Private Domestic Product for the U.S. & France: 1951-1971 213
15. Data on Outlays, Receipts and Balances as Percentage of Gross Private Domestic Product for U.S. Fiscal Years 1972-1975 215
16. Comparative Data on Indexes of Annual Growth of Receipts and Outlays in the U.S. and France-Fiscal Years 1952-1971. 217
17. Relation of Expenditures or Outlays to New and Prior Budget Authority and Relative Share of Prior Budget Authority 1954-1971 270

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

18. French "Carryover" Crédits (Reports de Crédits): 271
19. U.S. Actual Budget Authority, Unexpended Balances and Net Obligations Incurred 1961-1971 276
20. U.S. Unexpended Balances and Net Obligation as Percentage of Outlays 1961-1971 278
21. Comparative Data on Initial, Supplementary and Actual U.S. Outlays and Receipts 1925-1949 294
22. Comparative Data on Initial, Supplementary and Actual U.S. Outlays and Receipts 1950-1971 295
23. Comparative Data on Relative Changes in Initial, Supplementary & Actual U.S. Outlays and Receipts 1925-1949 296
24. Comparative Data on Relative Changes in Initial, Supplementary & Actual U.S. Outlays and Receipts 1950-1971 297
25. Intrayear Changes in Technical and Forecasting Categories of French Finance Law - General Budget 1961 to 1971 . . . 299
26. Intrayear Changes in Technical and Forecasting Categories of French Finance Law - General Budget - as Proportion of Initial Finance Law 1961-1971 301
27. Current and Permanent Budget Authority - Initial Estimate and Actual Authority Granted 1954-1971 305
28. Percentage Distribution of Actual Current and Permanent Budget Authority 1954-1971 304
29. Current and Permanent Budget Authority and Outlays: Percentage Variation Between Initial Estimate and Actual Figures 1954-1971 307
30. "Virements", "Transferts" and "Répartitions" in Finance Bills 1966-1971 308
31. Reprogramming in the Defense Department: 1966-1971 309
32. Comparison Between Initial and Actual Budget Outlays and Percentage Variation in the U.S. and France 1960-1971 . . 323
33. Comparison Between Initial and Actual Budget Receipts and Percentage Variation in the U.S. and France 1960-1971 . . 324
34. Comparison Between Initial and Actual Budget Balances and as Percentage of Gross Private Domestic Product in the U.S. and France 1960-1971 327
35. Controllability of Budget Outlays: Selected Years in 1950's and 1967-1971 374
36. Controllability of Budget Outlays as Proportion of Total Budget Outlays: Selected Years in 1950's and 1967-1971 . . 374
37. Controllability of Budget Outlays 1972-1976 379
38. Controllability of Budget Outlays as Proportion of Total Budget Outlays 1972-1976 380
39. Index of Annual Growth of Relatively Uncontrollable and Controllable Budgetary Outlays 1967-1976 381
40. Comparisons Between Initial and Actual Budget Balances - Numerically and as Percentage of Gross Private Domestic Product in the U.S. and France 1957-1971 389
41. Index of Annual Growth of Actual Current, Permanent and Total Budget Authority and Outlays: Fiscal Years 1955-1971 405
42. Actual Contract and Borrowing Authority as Proportion of Total Budget Authority 406

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

43. Contract Authority: Initial Estimates and Actual Current and Permanent Authority 1954-1971 407
44. Authority to Spend from Debt Receipts or "Borrowing" Authority - Initial Estimate and Actual Current and Permanent Authority 1954-1971 408
45. Comparative Data on Budgetary Balances: Initial Estimate, Supplementary Estimate and Actual Balance in the U.S. and France 1954-1971 417
46. Comparative Data on Budgetary Balances: Initial Supplementary and Actual Balance as Proportion of Gross Private Domestic Product in the U.S. and France 1954-1971 419
47. Comparative Data on Budget Financing in France and the U.S. 1967-1971 430
48. Percentage Distribution of Means of Budget Financing in France and the U.S. 1967-1971 432

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

LIST OF ILLUSTRATIONS

Figure		
1.	The Accounts of the Budget of the State: Initial Finance Bill (1971)	151
2.	Budget Summary (F.Y. 1969)	166
3a.	Loan Disbursements as Percentage of Global Expenditures for Fiscal Years 1960 through 1971	174
3b.	Net Lending as Percentage of Gross Private Domestic Product for Fiscal Years 1960 through 1971	174
4.	Budget Summary (F.Y. 1977)	176
5.	Comparative Analysis of Outlays, Receipts, and Balances as Percentages of Gross Private Domestic Product for United States and France: 1951-1971	214
6.	Index of Annual Growth of Relatively Uncontrollable and Relatively Controllable Budgetary Outlays 1967-1976	383

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

INTRODUCTION

The budget and the budgetary process are likely to be the most definitive but bewildering expressions of any nation's economic conscience. As a likely result, the few studies in this area of Public Finance or Public Sector Economics conducted by economists have tended to concentrate on current budgetary problems in their own domestic framework. This attitude precludes consideration of several possibilities which might lead to better solutions than if they are not considered. Current budgetary problems are frequently descendant of past institutional arrangements and decisions. Such problems, domestically, are frequently similar to those which obtain or have obtained in other industrialized nations. Moreover, some future budgetary problems are likely to arise from the adoption of present institutions and procedures. All of which implies that economists have neither taken advantage of the rich store of information available to them through studies of the past experiences of the United States and other industrialized nations nor have they taken stock of present systems in the light of preventing future aberrations.

For these reasons primarily--the need for more and more systematic arrangements of budget and financial information about the past, the present, and across countries--the dissertation, "A Comparative Study of Changes in the Budgetary Process of France and the United States: 1921 to 1971" has been undertaken. The study seeks to explain

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

and compare qualitatively and quantitatively the path of some common components of the budgetary process within a single year and over the fifty odd span of years considered with the expectation that it may contribute to a better understanding of that process in any mature nation. It seeks, also, through an intensive examination of selected common problems in Part IV, to draw attention to the importance of the particular roles of participants: the legislative and executive branches of Government in both the immediate and more distant future. Ultimately, of course, the objective of such comparative analyses is to work towards the improvement of the budget and the budgetary process through the clearer definition of practicable common means and ends. In this paper, however, macroeconomic objectives are accepted as given so that full concentration may be directed towards the means contained in budget practices and procedures.

To this end, it should be noted that the study is comparative from 1921 through the year, 1971, though the United States material has been updated through 1976, including the provisions of the United States Congressional Budget and Impoundment Control Act of 1974. The approach adopted is comparative for each nation and between the two nations over time as well as at the point in time defined by the end of the period studied, 1971. In addition, the quantitative evidence supplied on budget components and totals reflects intrayear and interyear budget considerations. The several techniques are introduced to suit the particular problem under investigation and to reveal the interrelationships and patterns of budget practices in the two countries. Any attempt at effective "control" of the budget totals, for example, should draw information from more than one of these several attitudes. In fact, the

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

new budget act does appreciate the multidimensional aspect of budgeting by dealing both with the annual "control" of the budget in terms of spending by the executive and the longer run approach implied by the sections pertaining to "backdoor spending" of the legislature. However, the possible success of the Act in these and other directions will be analyzed in Chapter 14.

Furthermore, one final dimension of the study relates to the belief that whatever our budgetary processes are, they evolved from past conceptions and formulations of them. The extent to which we can control present and future budgets is predetermined, in large part, by our past actions. Therefore, the various techniques employed are designed, hopefully, to reveal as many viable options as possible from whatever source and to be sure that the door has not been inadvertently closed to any better way to design the nation's budget or the process which makes it the law of the land.

As a first step towards reaching the desired objectives, Part I, "Institutions and Organizations of the Economies of France and the United States", provides the basic models of the national economy of the two nations in which the budgetary process operates. Knowledge of the thinking, the actions, and the institutions which underlie the public sector in each nation help to improve understanding of its budget document and its annual development. Chapters 1, 2, and 3 are devoted to an overview of budget reforms and legislative and executive organization and reorganization in the two countries over the period.

It is in Part II, "General Theory and Practice of the Budget and the Budgetary Process", that the concepts represented in each nation's budget and the budget, itself, are explored and compared. Chapters 4,

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

and 5 approach the topic from the theoretical point of view and juxtapose French and United States economists' thinking on rules, principles and objectives of budgeting. In Chapter 5, the conjectural foundation is laid for the later consideration of a major practical problem: the significance of the budget imbalance and its financing. Chapters 6 and 7 present, respectively, the actual budget format in use and the actual budget and its major components over time. Beginning with these chapters, the quantitative evidence on budget practices is recorded. Tables included here monitor the entire period's receipts, outlays and budget balances in absolute and relative terms for both countries. The data for these tables and later ones are derived mainly from two sources for the United States: the United States Budget for each fiscal year or the historical summary tables of a single United States Budget, and two sources for France: the French Projet de Loi de Règlement for each fiscal year or a retrospective study prepared by the Ministry of Economy and Finance and published in the Statistiques et Études Financières Numéro Spécial, 1974, "Évolution du Budget de l'État de 1947 à 1972".

There is a sustained effort in all tables throughout the paper to maintain the integrity of the classification system used in the original model though rearrangements of the material do occur to highlight areas under examination. In most cases where there may be a question about comparability of data between systems, the reader's attention is drawn to the fact through observations made in the text or source material. The figures included here are the original current dollar or franc sums or transformations of them except in Table I, "Comparative Data on Gross Private Domestic Product in France and the United States: 1951-1971", and those tables which use Table I as a source. Though, indeed,

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

accounting for inflation may make a difference in some of the findings of this study, it is not clear just what "rational" adjustment should be made in view, for example, of the length of time involved and the unevenness of inflation's impact within the public sector as well as in the whole economy. Thus, though "rational accounting is not a trivial matter"[1], it was thought best to set aside its utilization for the purposes of this paper.

The "Executive Preparation," "The Legislative Vote," "The Execution," and "Audit and Review," or Chapters 8 through 11, represent the four phases of the budget cycle which compose Part III, "The Budget and the Budgetary Process in Action." There are ample opportunities in the four chapters to demonstrate the similarities and differences between the two countries in the roles of their participants and their actions during the annual cycle. In Chapter 9, "The Legislative Vote," for example, two striking differences between France and the United States analyzed concern the relative degrees of freedom alloted to the legislature in budget revision and the large disparity in the respective time constraints involved. On the other hand, Chapter 10, "The Execution," affords the opportunity to examine similar practices indulged in by the two nations which are both condemned and defended in each: various types of transfers between budget accounts in time and space. There is a good deal of comparative empirical evidence offered in the chapter respecting the variations in the budget during the year and over the years along with insights into their catalysts and their control. The last chapter of

---

[1]Solomon Fabricant, "Toward Rational Accounting in an Era of Unstable Money, 1936-1976" National Bureau Report 16 (new York: National Bureau of Economic Research, Inc., Dec. 1976): 16.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Part III, "Audit and Review," sketches the role of each country's audit department and suggests the successes and failures of these "control" organs during the final phase of the budget cycle.

Part IV, "Some Common Problems in 'Efficiency' and 'Control' of the Budget and Budgetary Process Now and in the Future" contains three chapters, 12, 13, and 14, two of which are concerned with the intensive examination of some major common problems and, the third concerned with the new Congressional Budget and Impoundment Control Act of 1974. The purpose of Chapters 12 and 13 is to clarify and separate the overall aspects of some major budget problems according to their concern with the short run (12) or the long run (13), the executive branch (12) or the legislative branch (13), or economy and efficiency in execution (12) or political control of the budget (13). It may be that the classifications are not mutually exclusive but, at least, early analysis of a particular issue is confined to a single major aspect. Thus, Chapter 12 focuses on the meaning of economy and efficiency in the execution of the budget and examines the ways and means available through present budget structures for the executive to accomplish macroeconomic objectives in that desired fashion. Chapter 13, in contrast, delves into the legislative problems which are related intimately to its control over the annual spending process. Some topics investigated are borrowing authority, credit activities and extrabudgetary entities. Finally and perhaps most important of all, the significance of the budget imbalance and the method of its financing is reexamined from the fiscal and financial points of view. The last chapter of Part IV, "Concluding Remarks on the Past and Future of Budget-making Given the Congressional Budget and Impoundment Control Act of 1974" serves as a guide to the Act whose

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

procedures have been in full force only since the beginning of the budget cycle for the fiscal year 1977.

As Part IV in its entirety represents the culmination of certain broader analyses conducted earlier in the paper, its distillation of some major common problems need no further summarization. Therefore, Chapter 15, "Findings: Summary and Conclusions," is devoted to a reconciliation of the interlocking themes of "economy and efficiency" and "control" in budgeting as they have reappeared in various guises throughout the half century of French and United States procedures studied. The two countries have faced similar problems, but their respective solutions have differed. In part, this may be traced to the centralized organization of the French economy and, in part, to the willingness of the French to state explicit goals and question their success at achieving them.

Finally, there is a fundamental difference between the two countries in their understanding of what a budget and a budgetary process should be and its practical application. The arguments of the last chapter reflect these differences and draw upon those parts of both systems which might contribute to a better budget process than so far recorded. The link between budgeting and economics is both theoretical and practical, and tracing the pattern of changes in budgetary procedures as attempted here reveals the choices which fashioned present budget structures in the first place. To do so systematically across other countries and through time could lead to a deeper insight of public sector decision making in all its facets.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

PART I

INSTITUTIONS AND ORGANIZATIONS OF THE ECONOMIES OF THE UNITED STATES AND FRANCE

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

CHAPTER 1

OVERVIEW OF ATTITUDES AND LEGISLATION CONCERNING THE BUDGETARY PROCESS

Introduction to Part I

It is the objective of Part I, which includes this chapter and the two chapters which follow, to introduce the framework for the operation of the budgetary processes in France and the United States. With that goal in mind, Chapter 1 is devoted to the thinking and actions which created the present budgetary systems in France and the United States. Several comparisons are drawn with respect to the similarities and differences in budgetary approaches to definitions of concepts, presentation, financing and responsibility. The chapter, also, contains some reflections on planning and "rationalization des choix budgétaires" in France as opposed to "planning-programming-budgeting systems" in the United States.

Chapter 2,"Organization of the Economy and the Public Sector," will consider the organization of the economy and its public sector in terms of political, social and economic theories and practices. The chapter will provide, also, an insight into the various types of institutions which compose the public economy and some of the major legislation which created these institutions. Both legislation affecting the organization of the executive and the legislative branches, particularly relating to budgetary procedures, are included here.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

The last chapter of Part I, Chapter 3, "The Constitution and the Public Sector," is concerned with a more detailed analysis of the operation of the public sector institutions. Not only are the Constitutions of the two countries compared in terms of executive and legislative powers, but specific public bodies such as the French Economic and Social Council, the United States Council of Economic Advisers and the United States Joint Economic Committee are juxtaposed.

Overview of Chapter 1

Analysis of the budget process in France and the United States begins with the historical record of procedures in the 1920's and 1930's. The interpretation of "economy and efficiency" in budgeting which prevailed at that time is revealed by legislative and executive acts as well as by writers of the period. The development of the two modern budgets, their budget concepts and related institutions is outlined here into the 1970's as the foundation for further study.

Economy and Efficiency in Budgeting in the 1920's and 1930's

In both the United States and France, the budget consisted of scarcely more than operating expenditures for civil and military service equipment up until the second world war. However, though the French resorted to the use of an "ordinary" and an "extraordinary" budget with little organized concern for clarity in presentation, economy efficiency or a generally systematic budgetary process until the mid 1940's, the United States adopted the Budget and Accounting Act of 1921 which attempted to do exactly these things. According to Arthur Smithies

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

in his classic on the budgetary process in the United States,[2] The Act served three main purposes: (1) "to provide for a comprehensive Presidential budget; (2) to provide the President with the Budget Bureau to assist him in the preparation of the budget and to strengthen his authority over the executive departments; and (3) to assign responsibility for accounting to a General Accounting Office under a Comptroller General."[3]

In sum, this Act provided for a national budget system and an independent audit of Government accounts as stated in its introductory description.[4] Indeed, the emphasis on promoting economy and efficiency in Government was apparent from the very first report by the Director of the Bureau of the Budget, who was appointed by the President and established his bureau in the Treasury Department.[5] The Director announced that the President had appointed a Chief Coordinator to work under him for the purpose of "representing the President in the application of uniform business principles and methods to the expenditure of public funds."[6]

---

[2]Arthur Smithies, The Budgetary Process in the United States, A Research Study for the Committee of Economic Development, 1st Ed. (New York: McGraw Hill Book Co., Inc., 1955).

[3]Ibid., p. 72.

[4]Budget and Accounting Act, 1921, U.S. Code vol. 31, sec. 1 (1970), 42 Stat. 20.

[5]Ibid., sec. 207.

[6]U.S. Bureau of the Budget, First Report to the President of the U.S. by Director of the Budget, transmitted report of the Chief Coordinator and Chairman of the Coordinating Boards establ. by Executive Order for the coordination of the routine business of the gov't. (Wash., D.C.: Gov't. Pr. Off., 1 July 1922). p. 1.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

At the first Government business meeting on 27 June 1921, the President expressed his determination to have economy and efficiency in Government administration. The Director of the Bureau of the Budget added that his work would not only be preparing the budget, which the Budget and Accounting Act required the President to transmit to Congress on the first day of each regular session, but would be attempting, also, to reduce expenditures out of monies already appropriated by Congress for fiscal year 1922. He drew departmental attention to the fact, since lost to our budget process, that Congressional appropriations were "ceilings" and every effort should be made to spend less than the maximum specified.[7]

At the second governmental business meeting on 3 February 1922, participants learned that there had been direct cash savings to the Government of over 32 million dollars and indirect savings of about 100 million dollars. These economies were translated in terms of the General Reserve Fund to a total of almost 136 million dollars as of 31 March 1922. Another achievement mentioned was "the promulgation by the General Accounting Office of a standard classification of objects of expenditure under the authority of Section 309 of the Budget and Accounting Act."[8]

By the time of the third meeting of the Business Organization of the Government in the auditorium of the New National Museum on 11 July 1922, the President found it necessary to discuss ways to eliminate the prospective deficit for fiscal year 1923. He stressed the importance of

---

[7]Ibid., p. 3.

[8]Ibid., p. 7.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

complying with the Antideficiency Act particularly as war conditions were now over and, thus, there was no occasion for deficiency estimates.[9]

At the same time that these business meetings of Government were occurring in the United States, the French were preoccupied, also, with more efficient administration and economy. The Finance Minister, Monsieur Doumier in the Briand Cabinet of 1921-22 declared that the war had been over for three years, yet the budgets were in disorder because the State was still living on loans. The very first necessity to enable the State to stop borrowing is to reduce expenditures to meet the resources supplied by the taxpayer.[10] He strongly recommended closing the Special Treasury Accounts which were funded by borrowings and used to disguise a deficit and, making the budget of recoverable expenditures (which included the German payments for reparations) more literally into a true budget. Monsieur Doumier pointed out that in a budget of 25 billions, over 12 billion were employed for debt service. He emphasized that France must reestablish her budget on a sound financial basis and that economy on a large scale must be exercised. Wasteful spending could be avoided by incorporating all revenues and expenditures in one self-contained budget. It would not be possible, then, to conceal the state of the budget by shifting expenses from the ordinary to the extraordinary budget or to some Treasury account. On the other hand, the budget project which Doumier proposed showed a total deficit in the general budget from both the ordinary and extraordinary sections of 2.5

---

[9] U.S. Bureau of the Budget, Second Annual Report of the Director of the Bureau of the Budget to the President of the U.S. (Wash., D.C.: Gov't. Pr. Off., 1 July 1923): 22.

[10] Robert Murray Haig, The Public Finances in Post-War France (New York: Columbia University Press, 1929), p. 73.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

billions.[11]

In fact, the budget of Doumier and two successive French budgets were transmitted to Parliament with deficits of varying sizes. Discussions of the budgets and their deficit condition were long and arduous to Government and Parliament. The differences of opinion were not simply over whether the budget should be balanced, but how to finance an imbalance if it should prove advisable or necessary. Finally, adopted budgets were financed alternatively by reducing tax evasion, by increasing the rates of old taxes or by changing the method of estimating tax yields.[12]

Development of Modern French Budget in the 1940's and 1950's

It was not until Robert Schumann released his Inventaire de la situation financière in 1946 that real efforts were undertaken to put the State's public finances in order. The Schumann report explained the problem of a unified budget as oppcsed to several budgets. The report indicated that there are industrial and commercial activities of Government which lead to accounting methods similar to those of private enterprise. On the other hand, the distinction between administrative and investment expenses, permanent and exceptional expenses is radically opposed to the receipts which finance them and, unfortunately, tends to provoke budgetary specialization.[13]

The first measures taken with respect to the budget, however, were concerned with submitting the many activities of the State to parliamentary censure where they had formerly escaped such review. Thus, on 23

---

[11]Ibid., pp. 74-75.

[12]Ibid., p. 88.

[13]France, Ministère de Finance, Inventaire de la situation financière 1913-1946 établi sur les instructions de M. Robert Schumann, Ministre des Finances (Paris: Imprimerie Nationale, 1946).

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

December 1946, the expenditures from war damage reparations were to be submitted to the Parliament. Article 70 of Law No. 47-520 (March 1947) provided that Parliament receive an annual report on those enterprises included in the Special Accounts of the Treasury. It provided, also, for the creation of a subcommittee in each House of Parliament to follow and evaluate the management of nationalized industrial enterprises and companies of mixed private and public ownership. The Act established a subcommittee to follow and control in a "permanent way" the use of crédits assigned to national defense. Crédits are the sums assigned to given objects in the French budget which are available for expenditure within the fiscal year. Most crédits are payment crédits but there are, also, crédits d'autorization de programmes which are sums available for obligation only.[14] Expenses for equipment of national enterprises and the loans of the Modernization and Equipment Funds were submitted to parliamentary scrutiny according to the law of 7 January 1948. Then, with the law of 6 January 1948, the Special Accounts of the Treasury were, at last, to be viewed by Parliament.

It was not until 1949, however, that the budget assumed anything like its present form. The law called the loi de maxima regrouped the authorizations of expense in broad categories along with the forecasts of receipts. Up until this time, the budget was presented as a "mosaic of autonomous texts".[15] With the new presentation, crédits were voted in

---

[14]See extract of report reprinted in Francois Deruel, Finances publiques: documents, mementos Dalloz (Paris: Libairie Dalloz, 1972), pp. 4-5.

[15]France, Secrétariat Général du Government-Direction de la Documentation, "Les Techniques de préparation et de contrôle du budget de l'état" par Pierre Lequéret, Notes et études documentaires, La Documentation française n^{os} 3965-3966 (26 Fév. 1973), p. 38.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

blocks: by ministry and by broad categories within each ministry. Immediately following, for each ministry, were the lois de développement. The laws allocated in detail, by chapters, the larger blocks voted for the considered ministry. Though the object of this presentation was to have Parliament evaluate the whole budget project and its objectives first, and then, impose ceilings on the total allocations within ministries when it considered the parts in detail, Parliament preferred the reverse order. They were interested in the laws of development and the advantages that the latter offered to their respective constituencies in the first place.[16] This situation was not corrected until the laws of 2 April and 6 August 1955 gave the Government permission to decree another way of budget presentation.

Finally, on 19 June 1956, France adopted a budget act[17] which was comparable to that existing in the United States since 1921. With some modifications by the organic law of 2 January 1959,[18] this is the presentation and the vote of the budget which must be taken to this day.

Preparation of the Décret of 1956 was facilitated by the important work accomplished over several years. Much of the work was done by the Commission of Budgetary Reform created in 1948 in the public finance section of the Comparative Law Institute of the University of Paris under the sponsorship of the Finance Commission of the National Assembly.

---

[16] Deruel, p. 3.

[17] Maurice Duverger, Finances publiques 5e éd. "Themis" Manuels juridiques, économiques et politiques, collection dirigée par Maurice Duverger (Paris: Presses Universitaires de France, 1965), pp. 270-271.

[18] Décret No 56-601, Budget de l'état: mode de présentation (19 juin 1956), Journal Officiel.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Some of the sections of the law evolved, also, from the years of experience in the preparation, the discussion and the vote of the budget.

In the spirit of its preamble, the budget was to be placed in its economic and financial context and debates on the budget were to be directed toward this new orientation. The State budget, claimed the writers of the preamble, has a profound influence on the life of the nation which must be recognized in the approach to budgetary problems. The budget or loi de finances must present the Government's economic and financial objectives with supporting reports which are based on the national accounts. Thus, the traditional budget must be placed in a national accounting framework which includes along with the State, the local collectivities, the great national enterprises and the social security system.

The text of the law forecasts a simplified voting procedure for the budget to meet the objective of giving parliamentary discussion on the budget more clarity. It suggests that the budget reveal Government's purposes and the means of achieving them, given the economic and financial conditions and that these objectives will be further served by changing the order of budgetary discussion.

In the framework of the discussion of the loi de finances, the Government presents its financial politics. Parliament pronounces on the whole budget consisting of amounts listed by title and by ministry.[19] In this form, according to the preamble, the Assembly will see the respective importance by function of the various State services which

[19]Ordonnance N° 59-2, Loi organique rélatif aux lois de finances (2 janv. 1959), J. O. (3 janv. 1959), reprinted in Finance publiques: Documents by François Deruel, pp. 8-19 (Paris: Librarie Dalloz, 1972).

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

appear in the budget.

As this functional presentation is to be accompanied by annexes analyzing the nature of the various measures included in each ministry's budget, Parliament will be better informed. Furthermore, debate in Parliament will concentrate thereby on fundamental questions only, and the vote on the loi de finances will be taken before the 31st of December, not later, as it had been in the past.

Finally, according to the preamble, the Organic Decree of 1956 is a more flexible framework than previously existed which can be adapted to suit future developments. The decree defines the traditional principles of budgetary law concerning the nature, the scope and the duration of executive powers and it describes, also, the constitutive elements of the budget by giving definitions for its basic concepts. The organic decree is more than a body of rules and proven methods, it separates, in addition, the individual responsibilities of the legislature from those of the Government.

Four sections or titles composed the 1956 Decree which discussed the general framework of the budget and its definitions, its contents, the preparation and vote of the budget and, finally, its settlement. Much of the budgetary nomenclature described corrected and completed the reform in the presentation of the budget which had been introduced previously by a circular on 5 March 1952. The Organic Law of 2 January 1959, which replaced that of 1956 under the Fifth Republic, did not appreciably modify the rules imposed. Therefore, in what follows, the provisions of the 1959 Ordinance are dealt with primarily.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Some Essential Differences in Budget Concepts and Institutions

Whereas the 1959 Organic Law carefully spelled out both the form and the content of the budget as well as its general purpose and meaning, our own Budget and Accounting Act of 1921 along with its most important amendment, the Budget and Accounting Procedures Act of 1950,[20] did not actually do so. In a general way, the two United States Acts list the broad classifications to be included in the budget such as functions and activities of Government, actual and estimated appropriations, expenditures and receipts for the last completed fiscal year, the fiscal year in progress and the ensuing fiscal year, but neither the definition nor the form of the budget is prescribed by the law.

Here, we have a vital difference in the institution of the budget in the two countries. In 1921, though the United States Act did not prescribe the actual form of the budget, it is implicit that the President would submit one similar in form to that of previous years. This was apparent in section 205 of the document which provided that, for the first year only, the President might submit an alternative budget as long as it was clarified in terms of the old budget. In 1950, however, this section was amended to permit the President to make basic changes in the budget of any fiscal year provided they were properly explained in terms of the former budget. The President could prescribe the arrangement, the contents and the order of proposed appropriations, expenditures and so forth.

In the French system, the presentation of the budget is clearly

[20] Budget and Accounting Procedures Act of 1950, U.S. Code, vol. 31, secs. 2, 11, 14, 16, 18a, 18b, 22-24, 65-67, 581-581c, 624, 719, 847 (1970).

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

stated in Title II of the 1959 Ordonnance. There is to be a General Budget composed of ordinary and capital expenditures and loans and advances. There are to be Annexed Budgets composed of receipts and expenditures of Government's commercial type activities on the one hand, and investment expenditures and receipts specially assigned to these expenditures on the other hand. Finally, there are to be listed the six Special Accounts of the Treasury. All of these classifications are carefully detailed and the whole is to be accompanied by a report defining the economic and financial equilibrium in terms of known results and future perspectives.

In addition, the budget is defined in the French law in at least two places. Perhaps, preoccupation with the definition derives from the French concern with the rules and legality of budgeting. It may derive, also, as Louis Trotabas suggests, from the legislative nature of the budgetary act and its necessarily forecasting nature.[21] Up until 1956, the standing definition of the budget was that indicated by article 5 of the Decree of 31 May 1862. In the Act, the budget was described as an act which forecast and authorized the annual receipts and expenditures of the State as well as other service branches which are subjected to the same rules of law.[22] In 1956, three changes occurred in the definition. First, receipts and expenditures were reversed and became the "charges" and "resources" of the State, and second, the phrase, "in

---

[21]Louis Trotabas avec la collaboration de J.-M. Cotteret, Finances publiques 4e éd. Précis Dalloz, (Paris: Dalloz, 1970), p. 79..

[22]Ibid., translated from quote as follows: "le budget est l'acte per lequel sont prévues et autorisées les recettes et les depenses annuelles de l'état ou des autres services que lois assujettissent aux mêmes règles."

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

legislative form" was inserted in the statement and, third "annual" was dropped from the definition.[23] In 1959, however, article 16 described much as the 19th century law had that "The budget is constituted by the body of accounts which describe, for a civil year, all the resources and all the permanent charges of the State.[24]

At this point in time, however, a distinction was clearly drawn between the General Budget and the total budget or loi de finances of which it is only a part. In the latter sense, article 1 of the same Act offered a more modern interpretation: The Budget determines the nature, the amount and the assignment of resources and charges of the State realized from an economic and financial equilibrium that it defines.[25]

In our own system, economic considerations are not a formal part of the budget document though certain features of the Congressional Budget and Impoundment Control Act of 1974 make an initial step in this direction.[26] According to the Employment Act of 1946, there must be an economic report transmitted to Congress each year, but this report follows budget transmission and its relationship to the latter is not clarified in either document. With respect to financial matters, our budget act requires inclusion of Treasury statements revealing its condition for the last fiscal year, the present fiscal year and the ensuing fiscal

---

[23]Ibid., "Le budget de l'état prévoit et autorise, en la forme législative, les charges and les ressources de l'état."

[24]Deruel, p. 12 quotes: "Le budget est constitué par l'ensemble des comptes qui décrivent, pour une année civile, toutes les ressources et toutes les charges permanentes de l'État."

[25]Deruel, p. 8 quotes: "Les lois de finances determinent la nature, le montant et l'affectation des ressources et des charges de l'État compte tenu d'un équilbre économique et financier qu'elles définissent."

[26]See below, Chapter 15.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

year if the new financial proposals are adopted.[27] In the French Act, comments about the duties of the Treasury appear in articles 15 and 35. The Treasury is assigned the duty of collection of taxes and payment of permanent charges of the State as well as the issuance and reimbursement of public loans and deposit operations on order and for the account of correspondents. The condition of the French Treasury must be described in the first of the two parts of the budget described in Title III where the general facts of financial equilibrium are given. Included in this section is an estimation of the resources of the Treasury in terms of loans and tax collections and the ceiling figure for expenditures which they must cover. Also, the condition of the French Treasury must be indicated in the annual settlement of the budget which is a completely separate document which closes the accounts for the fiscal year in question and verifies its "profits" or "losses" along with the legality of the management of the public finances in general.

Neither the French nor the American budget acts discussed prescribe the method of budget financing though both require that the ways and means of achieving financial equilibrium be expressed. In the United States, according to section 202 of the amended Act, it is the President who makes recommendations on the appropriate action whether a deficit or surplus occurs. In France, it is the Minister of Finance, under the authority of the Prime Minister, who proposes the initial budget which is then approved by the Council of Ministers. Thus, it is the Minister of Finance who provides the budget financing information.[28]

---

[27] Budget and Accounting Act, 1921 as amended, repr. in part in The Bureau of the Budget, app. B. pp. 273-277, by P.F. Brundage (New York: Praeger Publishers, 1970), sec. 201.

[28] article 37 quoted in Deruel, p. 17.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Here, we have another fundamental difference between the French and U.S. budgetary institutions. In the United States, prior to the Budget and Accounting Act of 1921, the different departments and branches of the federal Government prepared their financial requests separately. The Treasury Department assembled the various requests but submitted them to Congress "without comment or revision:.[29] After 1921, it has been the President who is responsible for the preparation and transmission of the budget whether with the aid of the Bureau of the Budget in the Treasury Department according to section 207 of the 1921 act or with the aid of the Office of Management and Budget within the Executive Office of the President according to the Reorganization Plan No. 2 of 1970.[30] It has been different in the French system where this responsibility has been assumed by the Minister of Finance, sometimes called the Minister of Finance and Economic Affairs, and since 1966, the Minister of Economy and Finance.[31] The system has been decried by at least one French economist who claims the preeminence of the Finance Minister makes him a sort of second head of government and, in turn, makes the State appear as an "enterprise guided by its cashier".[32]

Nevertheless, the precise functions of the Minister of Finance in the preparation of the budget are not described in the French Act while functions of the Bureau as directed by the U.S. President are enumerated

---

[29]P.F. Brumdage, The Bureau of the Budget (New York: Praeger Publishers, 1970), p. 3.

[30]Reorganization Plan No. 2 of 1970, Statutes at Large, vol. 84, part II (1970).

[31]Duverger, p. 256.

[32]Ibid.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

in both the 1921 and 1950 Acts. In the 1921 Act, some of the functions described were to enable the President to decide what changes should be made in Executive Branch organization and activity and the level of appropriations necessary for the various purposes served. In the Budget and Accounting Procedures Act of 1950, the role of the Bureau in the collection, examination and dissemination of statistical information is mentioned.[33]

With the adoption of the Reorganization Plan No.2 of 1970, these functions were assumed, at the President's discretion, by the newly created Office of Management and Budget which replaced the former Bureau of the Budget.

Outside of the differences noted above in the general design and institution of the budget, itself, which will be treated in greater detail in the next section, two other major differences in the budget acts must be noted. One-half of the French Act is devoted to a discussion of the method and timing of the Parliamentary vote of the budget and restrictions placed upon it. There is no discussion whatever, in the American Act as to the timing or method of Congressional approval of the budget, nor in the Constitution for that matter except as provided for any bill. On the other hand, one-half of the American Act discusses the duties and functions of the General Accounting Office created by the 1921 Act. The French Organic Law is silent on such an office because one was already in existence but does provide in Article 36 for that office to issue a report and a general declaration of conformity between the individual accounts of the accountants and the accounts of the ministries to be

---

[33] Budget and Accounting Act, 1921 as amended sec. 209, quoted in Brundage, p. 276.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

annexed to the project of the law of settlement.

Comparisons of Planning and Programming Techniques

There were, also, differences in the French and American systems in the order in which they adopted planning and programming budgeting techniques and in their respective developments of accounting systems. In an amendment dated 29 August 1949 to the National Security Act of 1947,[34] it was declared that in order "to promote economy and efficiency", the Department of Army, Navy and Air Force should be integrated into one newly created executive department, the Department of Defense. In addition, the same amendment to the Act in Title IV, sought "Promotion of Economy and Efficiency through the establishment of uniform budgetary and fiscal procedures and organizations." It is in this amendment to the National Securities Act that the Performance Budget was formally introduced as the method of accounting for the Defense Department. Section 403 of the Amendment provides:

> The budget estimates of the Department of Defense shall be prepared, presented, and justified, where practicable, and authorized programs shall be administered, in such form and manner as the Secretary of Defense, subject to the authority and direction of the President, may determine, so as to account for, and report, the cost of performance of readily identifiable functional programs and activities, with segregation of operating and capital expenses.[35]

The performance budget described what is essentially management-oriented and concerned with activities relating to the functions and work

---

[34]National Security Act of 1947, Statutes at Large, vol. 53, Part II (1939).

[35]Ibid.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

of one individual operating unit.[36] It differs basically from the program budget and planning-programming-budgeting systems which was developing around the same time during World War II. The program budget is concerned with end products or objectives regardless of where the activities may be performed. In other words, the first utilizes cost accounting techniques while the second utilizes basic economic concepts and systems analysis.

The idea of program budgets was first introduced in the Defense Department by the Secretary of Defense, Robert McNamara in 1961.[37] At the same time, it was really the birth as well of planning, programming, budgeting systems, PPBS, in the Federal Government of the U.S. because the latter simply integrated the particular form of annual budgetary presentation into long range planning using various quantitative techniques in the evaluation of different ways to achieve the desired objectives. One economist has suggested that PPBS "seeks to aid in defining the goals and in choosing among the goals, in specifying programs to attain the goals, in choosing the best alternatives, and, subsequently, in measuring performance."[38]

The approach, including its use of cost-benefit analysis, was

---

[36]Allen Schick, "The Road to PPB: The Stages of Budget Reform", reproduced from Public Administration Review, 26, No.4 (Dec. 1966): 243-58, in Planning-Programming-Budgeting, A Systems Approach to Management, ed. by Fremont J. Lyden and Ernest G. Miller, 2nd ed. (Chicago: Markham Publishing Co., 1972), pp. 27-28.

[37]Bernard P. Herber, Modern Public Finance, The Study of Public Sector Economics, Review, ed. (Homewood, Ill.: Richard D. Irwin, Inc., (1971), p. 388.

[38]John F. Due, Government Finance: Economics of the Public Sector, 4th ed. (Homewood, Ill.: Richard D. Irwin, Inc., 1968), p. 60.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

extended to other agencies of the Federal Government through an Executive Order in 1965. It has not, however, made the inroads in federal budgeting that were expected of it. There is, of course, an enormous problem of information collection and analysis, constraints imposed by the annual budget cycle and the failure of much legislation to stipulate program objectives, to mention just a few of the operational problems. Roy Ash, former Director of the Office of Management and Budget, claims that "we buried PPBS (planning-programming-budgeting systems) for a number of reasons. First, it got caught up in the hands of people more interested in process than in results. The processors took over and lost sight of the main purpose. Second, many issues are not as quantifiable as the system would require, yet judgments are called for anyway."[39]

In addition, the budgetary reforms which permitted management-oriented budgetary systems to develop in the 40's after an earlier stage which emphasized expenditure control[40] seem developing more slowly in the case of planning orientation. Perhaps, this can be traced back, in part, to the fundamental dislike in the United States for the use of planning techniques and the necessary centralization of policy decision-making which it entails.

Perhaps, it is because the French have lived with planning

---

[39]Roy L. Ash, "Presidential Budgetary Reform", Controlling Federal Government Expenditures, the Roles of Congress and the Administration, CED symposium, Al Ullman, Roy L. Ash, Murray L. Weidenbaum and Ronald R. Davenport, Introduction by Emilio G. Collado (Wash. D.C.: Committee for Economic Development, Oct. 1973): 10.

[40]Schick, p. 19.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

techniques for so long[41] and have a strongly entrenched centralized decision-making system that the approach has proved inspirational for them. The French version known as rationalization des choix budgétaires or R.C.B. was officially adopted in France by an announcement of the Minister of Economy and Finance in 1968. He took advantage of one early problem in the American experience by leaving both the development of the approach and its speed of adoption to the initiative of the ministers of several governmental departments. There was, however, provision made for a central group to be chaired by the Secretary of State of the Budget.[42] On 13 May 1968, "Mission R.C.B." was established directly under the authority of the Minister of Economy and Finance by decree.[43]

Several of the ministries did engage in the R.C.B. operation including the ministries of National Education, Health, and the Interior.[44] On 25 November 1970, the Minister of Economy and Finance, Valéry Giscard d'Estaing issued a decree[45] establishing the permanent International Commission of the R.C.B. presided over by himself, and composed of representatives of all the ministries and other persons by their activities or

---

[41]First plan promulgated as Decree of 16 January 1947, signed by Leon Blum - cited in Stephen Cohen, Modern Capitalist Planning, The French Model, (Cambridge, Harvard University Press, 1969), p. 58 (footnote 2).

[42]Philippe Huet, "Le Mouvement de R.C.B." in L'Expérience française de rationalisation des choix budgétaires, ed. by Philippe Huet et Jacques Bravo, collection dirigée par Pierre Tabatoni (Paris: Presses Universitaires de France, 1973), p. 41.

[43]Jean Autin, 20 Ans de Politique Financière, Coll. dir. by Robert Fossaert and Edmond Blanc, (Paris: Editions du Seuil, 1972), p. 104, and Hubert Lévy-Lambert and Henri Guillaume, La Rationalisation des Choix Budgétaires Techniques d'analyse, p.7., Sec. dir Pierre Tabatoni, Preface by Pierre Massé, (Paris: Presses Universitaires de France, 1971), p. 17.

[44]Lévy-Lambert, p. 17. [45]Ibid., p. 8, Déc. No. 70/1092.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

their work such as manager or public enterprises or professors. According to the decree, the Commission must hold at least two meetings a year, the first of which occurred on 18 January and 19, 1971.[46] It is still too early to predict the effect that R.C.B. will have on French decision-making. There is, perhaps, a warmer environment for nurturing its growth in France evidenced by the approval of it by the Economic and Social Council issued 4 November 1970, and its recommendation for the application of R.C.B. to the area of public investments.[47]

Comparisons of Accounting Procedures

There was a reform in budgetary presentation which was enacted in 1970 also, but which developed independently of R.C.B. The new nomenclature provided by the reform may offer good information for R.C.B. studies even though it does not coincide with the information needed for an exhaustive verification of costs and results of public actions.[48] For the French, who have been guided by national programs throughout the post-war period,[49] it is an important step. The authorities in France accepted from the start that any national plan for growth must have as its basis, the planned development of public expenditure.[50] However, it has been difficult for the planners to have the investment budget of the public sector conform to the plan.[51] This has notbeen only because of the power structure

[46] Huet, p. 44.

[47] Ibid., p. 47, and Jean Rivoli, Le Budget de l'État (Paris: Editions du Seuil, 1969), pp. 94-95.

[48] Jacques Bravo, "La R.C.B. et le Management de l'État" Révue de Science finançière, No.2, (avr.-juin 1972): 289-355.

[49] M. MacLennan, M. Forsyth and G. Denton, Economic Planning and Policies in Britain, France and Germany (N. Y.: Praeger, 1968), p. 80.

[50] Ibid., p. 229.

[51] Warren G. Baum, The French Economy and the State, A Rand Corpora-

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

in which French planning operates entailing cooperation between the Planning Commission, the Treasury and the Minister of Economy and Finance[52] and because of basic conflicts over long-term growth and short-term stabilization policies but, also, because the former nomenclature of the budget was not satisfactory from the point of view of analyzing the economic nature and the object of public expenses.

The previous accounting systems in effect since 1933-35 were indicative of a time in which there was no standardization of accounting nor national economic accounting. In addition, the techniques of the era were founded principally on the manual record of operations. Accounting techniques then benefitted from the unification and rationalization of accounts which emanated from the development of national economic accounts, the analysis of Keynes, the use of electronic devices, the automatic transmission of information and so forth.[53] Since the accounting plan of 1947 which resulted from these developments, further mechanization, acceleration, and enrichment of statistics has occurred, particularly since 1963, enabling monthly review of the situation with respect to the execution of the budget at the level of chapters. In fact, the Decree No. 62-1587 of 29 December 1962[54] which codified dispositions and modifications of the regulations which had existed since 1862 stated specifically in article 133 that the general accounting of the State must conform to a general accounting plan established by the Minister of Finance.

---

tion Research Study, (Princeton, N.J.: Princeton University Press, 1958), p. 27.

[52] Ibid., p. 56.

[53] Jean Dupont, "La Réforme de la Compatibilité de l'état," Bulletin de liaison et d'information de l'administration centrale de l'économie et des finances N°.52 (juil-sept.): 41-53.

[54] Reprinted in Duruel, pp. 29-58

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Article 134 provided that this plan must issue a monthly statement according to preogatives set by the Minister of Finance.[55] The earlier accounting systems concentrated on "a strict perspective of control" but did not really achieve this objective because of insufficient attention to the information problem.[56] The accounting system codified in 1962 concentrated on management. It was concerned not only with the knowledge and control of operations concerning the budget and the treasury but also with knowledge of the inherited situation and the calculation of "prix de revient, du cout et du rendement des services."[57]

The new reform of 1970 made even stronger demands on attention to economic and financial information. In fact, according to the official document on the new budgetary presentation, the two general objectives of the reform were to arrive at (1) an easy transposition of budgetary facts in terms of national accounting, in order to better appreciate the economic impact of the State budget and, (2) to give a satisfying description of the budgetary charges according to their destination in order to better follow the cost and the utility of the actions of the State.[58] To achieve these objectives, the standardized budgetary presentation is to be organized in such a way that a regroupment of budgetary expenditures is possible in two ways: according to their object and according to their economic nature. The existing structure of the budget by ministry, titles, parts and chapters is to remain unchanged, but the internal contents of existing chapters is to be rearranged to afford a designation which is sectoral, or by destination and economic, or by nature of expenditure. The precision and the accuracy of this new system, according

---

[55]Ibid., p. 146. [56]Dupont, P. 44 [57]Deruel, p. 29.

[58]France, Ministère de l'Economie et des Finances, Direction du

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

to the French Budget Management Office, will depend on the nature of the figures analyzed, whether they are at the forecast stage, the authorization stage or the execution stage. In addition, the two dimensions of structures are not systematic as, for example, the sectoral code might refer to both program sectors of the Plan and geographic divisions. Finally, though the figures will be most reliable at the execution stage, even then, extra-budgetary statistical analysis may be necessary to refine the budgetary figures.

In reflecting upon the sectoral designation which includes, at its broadest level, categories such as public powers and general administration, education and culture, housing and urban development, one writer argues that it is not truly an object classification but rather a regroupment of the various modes of intervention in traditional sectors. Furthermore, though some of the large categories are broken down into finer classifications (one-digit categories divided into two, three or four-digit categories), he finds it difficult to trace specific programs of action of the public bodies. On the other hand, the economic nomenclature or the "structure of means" which includes the larger categories such as personnel expenses, taxes and subsidies, he finds repetitious of the budget, itself, though it is more exhaustive, eliminates double-counting.[59]

In the United States, the detailed budget information comparable to the French data discussed above is contained in the large document known as the Appendix to the Budget document. In this document, the term, chapters, refer to the branches of government and the major departments

Budget, Réforme de la présentation budgétaire (Paris:Imprimerie Nationale, 1970).

[59] Bravo, pp. 352-355.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

and agencies of the executive branch. The smaller agencies are grouped into one chapter entitled "Other independent agencies."

There are three main sections within each chapter (1) programs authorized by existing legislation, (2) the legislative program which reveals costs of proposed new legislation, and (3) general provisions of the appropriations language applicable to the agency as a whole. Both sections (1) and (2) are organized by major subordinate organization or bureau within the agency and, then, by fund (general or trust).

In addition to the partial cost basis information supplied by the budget documents, which is similar to the French "economic" code, there is an attempt made, also, to present a program by activities section which may be compared to the French "sectoral" code. This classification seeks to list costs or obligations by purpose, program, type of activity or project. However, the system is not uniform on a government-wide basis.

The program by activities section is the first of three parts contained in the Schedule of Program and Financing. The second part, on financing, shows the "fund sources, budget authority, and other means of financing the program, and the disposition of amounts not used during the year".[60] The last section shows the relation of obligations to outlays.

In the detailed budget document, there is, also, another schedule which may be compared to the French "economic" code. It is the Schedule of Object Classification and Personnel Summary. The Schedule is prepared according to a uniform list of object classifications and is subdivided, in some cases, into a three digit system. In this schedule, the object classes reflect "the nature of the things or services purchased, regardless

[60] Ibid., p. 7.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

of the purpose of the program for which they are used.[61]

Other information included in the Appendix is a narrative statement, where possible, for each appropriation or fund on the work planned and services proposed to be carried out, a statement of revenue, expense and retained earnings, and a statement of financial condition of the various funds. Also included are the budgets for the Legislative Branch, the Judiciary, the Comptroller of the Currency, the Exchange Stabilization Fund in the Treasury Department, the Federal Deposit Insurance Corporation, and the Milk Market Orders Assessment Fund of the Department of Agriculture which are listed "without review" in the amounts submitted by the Agencies.

Finally, the document uses gross figures rather net figures as the smaller document does, for loan programs, intrabudgetary transactions and proprietary receipts from the public.[62]

In spite of the seemingly detailed coverage of the Appendix document, it lacks overall direction, cohesion and conformity to an expressed plan. In addition, it still does not employ a standard budget classification system which is coordinated with all other Government departments and agencies. This objective was expressed in the Legislative Organization Act of 1970 which provided that:

> Sec. 202.(a) The Secretary of the Treasury and the Director of the Office of Management and Budget, in cooperation with the Comptroller General, shall develop, establish, and maintain standard classifications of programs, activities, receipts, and expenditures of Federal agencies in order --

---

[61] Ibid.

[62] Ibid., p. 8.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

(1) to meet the needs of the various branches of the Government: and

(2) to facilitate the development, establishment, and maintenance of the data processing system under section 201 through the utilization of modern automatic data processing techniques.

The initial classifications under this subsection shall be established on or before December 31, 1971.[63]

Unfortunately, a report prepared by the General Accounting Office dated 7 March 1973 revealed that the deadline had not been met more than one year later. In the words of the report, the OMB and the Treasury "Began initial work on a 'program classification structure' to improve budget presentations in terms of objectives and purposes (recognized to be a very major undertaking, didn't get resources, not active)."[64]

---

[63] Legislative Reorganization Act of 1970, Statutes at Large, vol. 84, Part I (1970).

[64] U.S. General Accounting Office, Financial and General Management Studies Division, "Implementation of the Budgetary and Fiscal Information Provisions of the Legislative Reorganization Act of 1970", reprinted in Improving Congressional Control over the Budget, pp. 322-326, A Compendium of Materials compiled by the staff of Subcommittee on Budgeting, Management and Expenditures (27 March 1973), p. 323.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

CHAPTER 2

ORGANIZATION OF THE ECONOMY AND THE PUBLIC SECTOR

Overview of Chapter 2

In this chapter, some background on the political, social and economic histories of France and the U.S. is introduced. The theory and the practice of organization and reorganization in Government is broadly outlined for the two countries. Major U.S. legislation discussed concerning the Executive Branch and the Reorganization Acts of 1939 and 1949 and, concerning the Legislative Branch, the Legislative Reorganization Act of 1946 and 1970.

Political, Social and Economic Background of France and the U.S.

The initial paradox of the Government of the United States is that it is founded upon an apparent fragmentation of public opinion in terms of its many subcultures, yet it has a well-ordered, traditional form of Government.[65] James Madison in No.10 of the Federalist papers, written in 1787, predicted that just because of this greater number of parties and interests, a stable form of government would emerge.

French society, on the other hand, is more homogeneous than in the United States in that it has been French speaking and part of the French nation for centuries (except Alsace and Lorraine), and the great

[65] S.E. Finer, Comparative Government, (New York: Basic Books, Inc., 1971), p. 187.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

majority of the population is Roman Catholic.[66] Nevertheless, during the period under study, France has been organized as the Third Republic, 1870 to 1940, the Fourth Republic, 1944 to 1958, the Fifth Republic, 1958 to the present, and there is open discussion of the coming of the Sixth Republic. "From 1789 to this day, France has had no less than sixteen constitutions, most of them overthrown by violence.[67]

On the contrary, one student of comparative government has suggested that the unifying force in the United States has been the emphasis upon patriotism and nationalism from grade school up, the interdependent economy and the myth of American democracy. The same writer claims that, "the tacit assumption upon which the current U.S. Government is founded: (is) government has to be loose, it has to be limited, it has to be slow, in order to handle the U.S.A's wide variety of geographical, ethnic, religious, sectional and economic cleavages."[68]

In fact, these governmental features are incorporated into our main institutions. We evidence these characteristics through our doctrines of federalism, separation of powers between the Federal and State Governments, loose structure and ideologies of the two main parties and the Presidency which is our focus of policy making. In contrast to the relatively loose and decentralized structure of the United States economy, France is very centralized and its administration was once referred to as "the administration of a dictator".[69]

---

[66]Ibid. [67]Ibid., p. 273. [68]Ibid., p. 207.

[69]D. Dévaux, La Comptabilité publique, (Paris: Presses Universitaires de France, 1957), p. 16.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

There are other basic differences between France and the United States. The structure of society in France, for example, is much more old-fashioned than in the U.S.: French society is "less industrialized, less urbanized, less concentrated and more parochial, and the 'small man' still predominates."[70] In the United States, 52 percent of the population live in towns numbering over 20,000 while, in France, only 30 percent do. There are only seven cities in France, including Paris, with populations of more than a quarter of a million. There are almost fifty such cities in the United States.[71] Finally, the sheer size of the U.S. dwarfs France in comparison. There are over 200 million people living on 3.5 million square miles of the United States compared to 76 million Frenchmen living on 211,000 square miles of French soil.[72]

In spite of the differences described, both France and the United States are committed to certain common goals, such as full employment, price stability and economic growth over time in the framework of a free enterprise system. Both countries, also, have used the tools of fiscal, monetary and other policies to attain these goals and recorded some of the costs in a governmental budget. It is clear that as far as the goal of economic growth is concerned, France has achieved a higher rate than in the United States. Table 1 describes the trend of gross private domestic product in the two countries for the period 1951 to 1971. France has achieved an average annual rate of growth more than two and one-half times that of the United States, 10.2 percent as

---

[70] Finer, p. 261.

[71] Ibid.

[72] Ibid.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 1

COMPARATIVE DATA ON GROSS PRIVATE DOMESTIC PRODUCT IN FRANCE AND THE UNITED STATES: 1951-1971 (Money Amounts in Billions of Dollars and Millions of Francs)

	UNITED STATES		FRANCE	
Year	Gross Private Domestic Product, 1958 $	Annual Rate of Growth	Production intérieure brute, 1959f	Annual Rate of Growth
1951	$ 344.6		114,796 f	
1952	353.2	2.5	134,460	17.1
1953	371.1	5.1	139,865	4.0
1954	366.2	- 1.3	147,949	5.9
1955	397.2	8.5	158,661	7.2
1956	404.8	1.7	174,479	10.0
1957	410.5	1.6	195,905	12.3
1958	405.2	- 1.3	224,586	14.6
1959	433.4	7.0	244,956	9.1
1960	444.0	2.4	271,784	11.0
1961	452.3	1.9	295,110	8.6
1962	482.9	6.8	329,177	11.5
1963	503.2	4.2	368,533	12.0
1964	532.0	5.8	409,037	11.0
1965	567.0	6.6	438,748	7.2
1966	603.5	6.4	477,560	8.8
1967	617.5	2.3	515,111	7.8
1968	647.0	4.8	560,966	8.9
1969	664.0	2.6	643,488	14.7
1970	659.4	- 0.7	716,794	11.4
1971	678.3	2.9	797,042	11.1
Mean		3.6		10.2

SOURCES: U.S. Council of Economic Advisers. Economic Report of the President. Transmitted to the Congress January 1972. See Table B-8, "Gross National Product by Sector in 1958 Dollars, 1929-1971", p. 205. France. Ministère de l'économie et des finances, "Evolution du budget de l'état de 1947 à 1972", Statistiques et études financières, 26e année, numéro spécial (1974). See Table 2, "Evolution de la production intérieure brute", p. 9. Both money sums exclude compensation of general government employees. French figures exclude, also, value of services of financial institutions. Annual rate of growth computed here.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

compared to 3.8 percent. This observation, of course, can make a considerable difference in the interpretation of facts concerning the size of the public sector.

In essence, the point is that though there may be some political, social and other institutional differences between the two countries, there are sufficient similarities including their aspirations and methods of implementation to warrant parellel consideration of their budgetary processes. Both nations are constituted as republics and both respect the elective principle, though the latter is more deeply established in the United States than in France.[73] In addition, both countries observe the principle of the supremacy of the constitution and have lived with the principle of separation of powers.[74] Thus, with their similarities as well as their differences in mind, we will continue to characterize the public sector in each nation and its relationship to the total economy.

Theories About Organizations

Jesse Burkhead has said in his classic, Government Budgeting, that "Decisions about the character of the public sector, its size, and its activities cannot be reduced to an exercise in abstract economics. Such decisions are a product of their context, which is an organizational context in a political framework."[75] Kenneth Arrow, the Nobel

---

[73] Ibid., p. 211.

[74] D.W.S. Lidderdale, The Parliament of France, (New York: F.A. Praeger, 1952), p. 9.

[75] Jesse Burkhead, Government Budgeting (New York: John Wiley and Sons, Inc., 1956), p. 57.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

prize winner in Economics in 1974 has declined the attempt to give a formal definition of organizations but suggests that it should be interpreted broadly. The market system and ethical codes may be included as well as firms, labor unions or Government. However, "the purpose of organizations is to exploit the fact that many (virtually all) decisions require the paricipation of many individuals for their effectiveness. In particular, ... organizations are a means of achieving the benefits of collective action in situations in which the price system fails."[76]

Arrow's definition of the purpose of organizations is essentially directed towards one particular failure of the price system, uncertainty, which he claims is "absolutely central to the understanding of organizations."[77] Uncertainty, according to Arrow, means that though we "consider the world to be in one or another of a range of states", we do not know "which state is the true one." In sum, the failure of the price system to allocate under conditions of uncertainty, to allocate risk-bearing through the market is limited by the structure of information channels in existence and the costs of information collection.[78] Arrow's costs include the individual's very limited capacity for acquiring and using information (fixed factor of production), or acquiring new channels of information once he has made the initial investment in one channel (irreversible capital element) and, thirdly, nonuniformity of information costs varying with the approach, experience and activities of the individual.[79] By the structure of information channels, Arrow

---

[76]Kenneth J. Arrow, The Limits of Organization (New York: W.W. Norton & Co., 1974), p. 33.

[77]Ibid. [78]Ibid., p. 37. [79]Ibid., pp. 39-42.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

refers not only to existing knowledge but the acquisition of new relevant information. Specifically, the inequality of information among economic agents such as between the insured and the insurer, or between patient and physician.

Undoubtedly, information and uncertainty have had a strong influence on the changing aspects of the organization of both governments of France and the United States, but Arrow's theme must be discouraging for the organizational minded government official. Arrow suggests

> that the combination of uncertainty, indivisibility, and capital intensity associated with information channels and their use imply (a) that the actual structure and behavior of an organization may depend heavily upon random events, in other words on history, and (b) the very pursuit of efficiency may lead to rigidity and unresponsiveness to further change

with respect to factors determining the agenda of an organization.[80]

Though Dwight Waldo, in The Administrative State[81] written many years earlier takes a different approach to organizations, his conclusions are no less discouraging. He notes that modern economic theory and the theory of organizations have many common characteristics. Both are concerned with value and valuation in relation to man. In neither case can one separate the aim of objective of the man or men (organization) from the man or men pursuing it, though economics bypasses the problem by ignoring the personal valuations and accepting them as given. Hence, he finds both theories normative and essentially static because they cannot be conceived without reference to purpose.[82]

---

[80] Ibid., p. 49.

[81] Dwight Waldo, The Administrative State (New York: Ronald Press Co., 1948), pp. 181-189.

[82] Ibid.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

The Practice of Governmental Organization

As difficult as it may be to approach the organization of the central Governments of France and the U.S. from a purely technical point of view, one can at least, describe them. How the Government should be organized, how it should determine its activities and their level as well as how to achieve the objectives these activities most efficiently, will not be considered here. We will describe the organization of Government and its relationship to the National Economy and, then, devote ourselves to one area in which the effectiveness and efficiency of Governmental organization is in part revealed, the budget and the budgetary process.

Gerhard Colm has suggested that the public sector is conducted through the use of the "budget principle" which is determined through the political and administrative process and is founded in "common social objectives".[83] Herbert Simon has argued that the budget document is a potent device for improving governmental decision-making processes, both administrative and legislative.[84] Thus, we will now offer a broad overview of past and evolving structures of the two governments here and then turn to the relationship of these to the budget document.

Direct Ownership and Production

One outstanding difference in the relationship between the two governments and their respective economies is the large extent to which

---

[83] Gerhard Colm, "Why Public Finance" in Essays in Public Finance and Fiscal Policy, pp. 3-23, by Gerhard Colm with editorial assistance of Helen O. Nicol (New York: Oxford University Press, 1955), p. 9.

[84] Herbert A. Simon, Administrative Behavior, (New York: MacMillan Co., 1948), p. 197.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

the French Government has entered into the production process directly as compared to the U.S. The French Government not only owns a large number of enterprises but some entire industries as well. In fact, the preamble to the Constitution of 1946 which was maintained in force by the Constitution of 1958 required that any enterprise whose activities are or have acquired the characteristics of a public service or a monopoly should be nationalized.[85] By 1965, there were more than 150 nationalized enterprises.[86] The original inventory of the financial system of France prepared under the direction of the Minister of Finance, Robert Schumann, as well as the updated one in 1951,[87] separated all the institutions which were essentially public or had been nationalized or semi-nationalized into four categories: (1) the administrative service branches, (2) offices and public establishments with an administrative character, (3) public establishments with an industrial or commercial character and (4) semi-public companies (sociétés d'économie mixte).[88] The first group is composed of the services of the administration as furnished by ministry and their expenses are recorded and paid for in the general budget just as the various administrative departments of the Government of the United States. This is not the case for the balance of the categories listed. Their appearance is the general budget is on a net basis only if their accounts show receipts larger than expenditures or if they

---

[85] Duverger, p. 87.

[86] Ibid.

[87] France, Ministère des Finances du Budget et des Affaires Économiques, Inventaire de la situation financière, mise à jour en 1951 de l'Inventaire de 1946 (Paris: Imprimerie Nationale), 1951.

[88] See Duverger, pp. 66-67.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

receive subsidies to cover a deficit on their books. It is this positive or negative balance which is transferred to the budget.[89]

In the second category, offices and public establishments of an administrative character, one finds the financial establishments such as the Caisse des depôts et consignations which holds the funds of the savings banks, Social Security and mutual insurance companies,[90] and the charitable, cultural and research institutions. These public institutions are corporations in that they have a separate legal personality and financial autonomy (separate budgets) but they are part of the internal hierarchy of government.[91] Some of the institutions of public character included in this category, however, may be here because of an accident of history, as Arrow suggests. A number of undertakings were confiscated because of their owners' collaboration with the Germans or because the Germans directly acquired their assets during their occupation of France. Much of the State ownership of the film industry was acquired for these historical reasons.[92]

The State owns, in addition, many specialized credit extending establishments other than those mentioned earlier. It has owned the National Bank of Agricultural Credit (Caisse Nationale de crédit agricole) and National Bank of State Markets (Caisse nationale des marchés de l'Etat) since before World War II and Crédit Lyonnais and the

---

[89] Alain Barrère, Economie et institutions financiéres, tome 1, (Paris: Librairie Dalloz, 1965), p. 66.

[90] Duverger, p. 137.

[91] F. Ridley and J. Blondel, Public Administration in France, (London, Routledge and Kegan Paul, 1969), p. 373.

[92] Ibid.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Bank of France, since World War II.[93] These public institutions of credit, however, along with the institutions in the energy, transportation, mechanical, chemical products and insurance industries are listed the the third category of public institutions with an industrial or commercial character. They are mainly composed of national companies and institutions nationalized after 1946.

The last category, mixed enterprises (sociétes d'économie mixte) refers to companies in which the Government owns only a portion of the capital stock and the balance is owned by private investors or municipalities. Again, the sectors affected are information, cinema, industry, energy, airplane construction and military armaments as well as transportation.

Thus, one can see that the first important distinction to be made with respect to the organization of the French economy as opposed to the United States is the relatively larger size of the public sector in France in terms of governmental ownership of enterprise. France has a state-owned sector larger than any other capitalist country except for Italy.[94] An early rough estimate made by the Ministry of Finance in about 1958 suggested that nationalized enterprises and semi-nationalized one in which the State owns the majority of stock account for about 20 percent of French industrial capacity.[95]

---

[93] Loi du Décembre 1945 reprinted in Inventaire de la situation financière 1913-1946 établi sur les instructions de M. Robert Schumann. (Paris: Imprimerie Nationale, 1946).

[94] Alfred R. Oxenfeldt, and Vsevolod Holubnychy, Economic Systems in Action. (New York: Holt, Rinehart and Winston, Inc., 1965), p. 184.

[95] Baum, p. 170.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Banking and Credit Institutions

A second distinction which will concern us at a later point involves the State owned banks and credit-extending establishments. Through these institutions, the public sector controls nearly two-thirds of credit operations and nearly one-half the national investment possibilities (15 percent being carried out directly through public enterprises).[96] The three State banks alone, Banque Nationale de Paris, Crédit Lyonnais and Société Générale, control 60 percent of all bank branches and deposits; together with the Caisse des Dépôts and the Post Office they handle over 80 percent of all bank deposits in France.[97]

This is not unlike the conditions prevailing in the United States with respect to the sphere of operations of the Federal Reserve System. On 31 December 1966, for example, banks belonging to the system held nearly three-quarters of the total bank deposits and 83 percent of the total demand deposits in the nation.[98] However, control over the money and credit supply in the United States is exercised through the relatively independent Federal System while, in France, this control is more tightly linked to governmental prerogatives expressed through the Ministry of Economy and Finance.

The Bank of France, for example, is under Treasury control and is merely an executant of policy. Nevertheless, the Bank does play a

---

[96] Hayward, P. 170.

[97] Ibid., p. 219.

[98] U.S. Federal Reserve System, Board of Governors, The Federal Reserve System (Washington, D.C.: F.R.S., 1967), p. 25.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

decisive role in the formation and implementation of monetary policy through its exercise of a "condominium" with the Finance Ministry. The "condominium" is exercised through four committees: the National Credit Council, the Banks Control Commission, the Stock Exchange Commission and the Franc Area Monetary Committee, all of which are presided over by the Governor of the Bank of France. It is the National Credit Council composed of forty-five members including Finance Ministry officials, the major economic Ministry representatives as well as the Planning Commissioner and representatives of public credit institutions, industry, agriculture and trade which is, by far, the most important.[99] Ostensibly, the Bank of France is autonomous in spite of its character as a nationalized institution and the appearance of its net balances in the budget of the State. Actually, however, its ties are closer to the Government's executive branch than those of the Federal Reserve System in the United States.

The Federal Reserve System is a blending of private, public, regional and national interests which was created on 23 December 1913. "Its original purposes," as expressed by its founders, were "to give the country an elastic currency, to provide facilities for discounting commercial paper, and to improve the supervision of banking."[100] The System involves twelve regional Federal Reserve banks which are, in fact, owned by private banking institutions not the Government as in France. However, they are operated "in the public interest" and member banks who subscribed to the capital stock receive only fixed and nominal dividends

---

[99] Hayward, pp. 163-164.

[100] Board of Governors, p. 1.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

from it while profits of the system above a certain level go entirely to the U.S. Government.[101] Congress created the Federal Reserve System and delegated to it the responsibility of monetary policy[102] except for some monetary powers left to the Treasury with respect to gold policy and management of Treasury cash balances. However, the Federal Reserve System's responsibility to Congress is rather on a trusteeship basis than anything else. It "does not present an annual report to Congress explaining or justifying its policies. It does not ask Congress' approval of its actions, nor does Congress review them as a normal part of its business."[103] In addition, contrary to the operation of the Bank of France, the system provides its own revenues and escapes the legislative control which accompanies the appropriations process. Its income, which is derived mainly from interest on Government bond holdings is spent according to its own decisions. Though the Board of Governors of the Federal Reserve System includes seven men appointed by the President, the system is not responsible to the Executive Branch either. Because they are not a part of the appropriations process, the System is not subject to executive review through the budgetmaking process. Furthermore, it is rather the Open Market Committee which is the crucial policy-making body rather than the Board of Governors. This group includes, along with the Board members, five of the regional bank presidents who

---

[101] Paul A. Samuelson, Economics, 9th ed. (New York: McGraw-Hill Book Co.,Inc., 1973).

[102] Warren L. Smith and Ronald L. Teigen, Eds. Readings in Money, National Income and Stabilization Policy. (Homewood: R.D. Irwin, Inc., 1965), p. 244.

[103] M.C. Patman, "What Improvements are Needed in the Money System?" in Monetary Theory and Policy, pp.58-70, Edited by R.A. Ward (Scranton, Pa.: International Textbook Co., 1966), p. 60.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

are responsible to their own bank's Board of Directors, if anyone, for their decisions. Finally the System is not subject to the audit control of the General Accounting Office. All of this, distinguishes the relationship of the Federal Reserve System and the Bank of France from their respective Governments.

Public Accounting Legislation

As early as 1947, according to Loi No. 47-520 of 21 March 1947, two years after the nationalization of the Bank of France and the many other firms mentioned, article 70 provided that both the National Assembly and the Council of the Republic create a sub-committee of the Finance Committee of each house, annually. The sub-committee is charged with following and evaluating the management of national industrial enterprises and mixed enterprise companies. In a law of 18 July 1949,[104] the powers of these sub-committees were extended to all organisms and enterprises which benefited from subsidies or were nationalized or were mixed enterprises in which the State participation was over thirty percent. The control of the State on nationalized public enterprises and other organisms having economic or social objectives was further extended in the Decree of 9 August 1953,[105] which required not only budgets, forecasts, accounts, balance sheets and final accounts to be approved by law, but also, assignment of benefits or loans or extensions in public enterprises which are more than 50 percent in the hands of the State. In

---

[104] Loi N° 49-958 renforçeant le contrôle parlementaire des dépenses publiques (18 Juill. 1949)., Journal Officiel (19 Juill, 1949).

[105] Loi N° 53-707 rélatif au contrôle de l'état sur les enterprises publiques nationales et certaines organisms avant un objet d'ordre économique ou social (9 Août 1953), Journel Officiel (11 Août 1953).

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

addition, the decree applied to affiliations of these public and semi-public enterprises. What we have listed above, however, is only a partial list of all the legislative, and regulatory acts passed by Parliament or decreed by Government. It was not until 29 December 1962, that all the rules of public accounting were consolidated or codified.[106] The history of Government control of public enterprises in the U.S. (other than banking institutions) is not chronologically dissimilar in the United States. Up until 1945, federal corporations did remain relatively autonomous of the central Government. The Tennessee Valley Authority and the Commodity Credit Corporation, for example, were not subject to central budgetary review.[107] However, with the passage of the Government Corporation Control Act of 1945,[108] this trend was reversed. The Act "consolidated and considerably extended the pattern of central Executive and Legislative authority over federal corporations" which began to build up just prior to World War II. With the Act, which established two types of Government corporations, "wholly owned" and "mixed ownership", all Government corporations became subject to the post-audit authority of the General Accounting Office. In addition, the Secretary of the Treasury was given jurisdiction over all borrowing operations.[109]

---

[106] See below, p. 277.

[107] Burkhead, p. 406.

[108] Government Corporation Control Act of 1945 U.S. Code vol. 31, secs. 841-869 (1970).

[109] Burkhead, p. 407.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

The heart of the legislation, however, was that the wholly owned corporations were now required to submit annual budgets to the Bureau of the Budget and these budgets were to be received by the appropriations committees of the Congress. The legislation appeared to have been created to discourage additional Government enterprise activity in the United States and, incidentally, to discourage the use of the corporate form of organization.[110]

Theories about Reorganization of Government

The problems of governmental organization of this type which lead to the adoption of this and later legislation were well expressed in 1940 in a book called Federal Regulatory Action and Control written by F.F. Blachly and M.E. Oatman.[111] In the book, the authors argue that the Federal Governemnt was beset with three conflicting doctrines of public administration: (1) Executive management, (2) judicial formula, and (3) revisionist. The basic feature of the Executive doctrine is that the Chief Executive should control all the administrative activities of the Federal Government. Hence, adherents of the doctrine object to the independent position of regulating commissions and boards. The doctrine of judicial formula is opposed to the foregoing because it would seek to escape the absolutism of Executive power. It would propose that the administration have very little discretion particularly in the areas affecting individual and property rights. Thus, it would require that any act even remotely connected with rights, even those legislative in nature, be subjected to the "judicial formula of notice

---

[110] Ibid.

[111] F.F. Blachly and M.E. Oatman, Federal Regulatory Action and Control (Washington, D.C.: Brookings Institute, 1940).

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

and hearing followed by a decision". The third viewpoint, the revisionist doctrine, sees the administrative structure as an organic system which has developed in response to recognized functions. Regulatory boards and commissions of an independent nature developed because these organizations are so much concerned with action which are legislative or judicial. Through time, the courts, the administration and Congress have built this administrative system and applied controls where necessary. The system may contain weaknesses and ambiguities but it does rest on principles which have an organic unity. Not its destruction but its improvement is in order by understanding and analyzing its strengths and weaknesses.[112]

Reorganization in the Executive Branch

It is clear, on reflection, that elements of all three doctrines have appeared in our own public administration over time as they have in France. But, with the passage of the Reorganization Act of 1939 in the U.S., the most important changes in public administration made since 1921 occurred.[113] Under the Act's provisions, several steps were taken to "substitute the executive management theory of regulatory administration for that which has been developed during the past fifty years".[114] Allen Schick has referred to the final section of these years 1920 to 1936 as the years in which a dominant emphasis was placed on expenditure control and hence, a reliable system of expenditure accounts.[115] Actually, the Reorganization Act was a result of a report by the President's Committee on Administrative Management, known as the Brownlow Committee after

---

[112]Ibid., pp. 4-6. [113]Brundage, p. 24.

[114]Blachly and Oatman, p. 149. [115]Schick, p. 19.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

its chairman, Louis Brownlow, and simply express that committee's leaning toward the executive management doctrine. "They were concerned almost exclusively with 'making democracy work' by equipping the President with the tools for the effective direction and supervision of the Executive establishment."[116] Actually, the Economy Act of 1932, and its amendments in 1933, were specifically addressed to reducing governmental expenditures had already provided Presidential power for reorganization purposes. In fact, the 1933 amendments permitted the President to abolish statutory agencies though not entire Executive departments.[117]

In the Reorganization Act of 1939, Congress laid emphasis in Title I on the fact that the Act was necessary "by reason of continued national deficits beginning in 1931."[118] Thus it would appear that expenditure control was inextricably linked to proper Executive management. According to the Act, the President is "to investigate the organization of all agencies of the Government" to decide on changes necessary to reduce expenditures, to increase efficiency, to improve coordination, and to diminish the number of agencies to eliminate overlapping and duplication of effort. Nevertheless, twenty-one agencies were exempted from provisions of the Act and the President was prohibited from abolishing or creating an Executive department nor authorizing any agency to perform a function which it was not legally authorized to do.

---

[116] Herbert Emmerich, Federal Organization and Administrative Management, (University: University of Alabama Press, 1971), p. 3.

[117] Economy Amendments of 3 March 1933, Amendment to the Economy Act reprinted in Federal Organization and Administrative Management, App., pp. 251-252, by H. Emmerich, p. 251.

[118] Reorganization Act of 1939, Statutes at Large, vol. 53, Part II, (1939).

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

In spite of the restrictions described above, Reorganization Plan No. 1 of 25 April 1939, [119] under this act, created the Executive Office of the President and transferred to it the Bureau of the Budget from the Treasury Department, and the National Resources Planning Board transferred from the Interior Department. In addition, the functions of the Federal Employment Stabilization Board (transferred from the Commerce Department) were merged with the National Resources Board whose function were later acquired by the Council of Economic Advisers.[120] The most outstanding achievement of the 1939 Act was the establishment of the Executive Office of the President and the Office of Emergency Management within that office.

The Reorganization Act which has been the basis for most recent Presidential reorganization power, however, has been the one of 20 June 1949.[121] One new feature of this Act was that the President could create a new Executive department. A second one was that no governmental agency was exempted from its provisions with the exception of the General Accounting Office and the Comptroller General of the United States. In other ways, the policy as to reorganization of the governmental agencies assumed the same pattern as in the previous Acts. Five different types of policy action were authorized: transfer, consolidation, coordination, abolition of the part or whole of an agency or its functions, and the authorization of an officer to delegate any of his functions. The coordination and consolidation of agencies was to be followed according to

---

[119] Emmerich, p. 253.

[120] Ibid.

[121] Reorganization Act of 20 June 1949, reprinted in Federal Organization and Administrative Management, pp. 255-256, by H. Emmerich, p. 255.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

purpose, to promote efficiency and economy and to further the improved administration of the public business.[122]

Administrative reforms over the period were many. President Truman, in 1950 alone, submitted twenty-seven reorganization plans of which twenty became effective. These plans were in accordance with the recommendations of the first Hoover Commission (The Commission on Organization of the Executive Branch) which sought to "reorganize the Executive Branch to give it the simplicity of structure, the unity of purpose, and the clear line of Executive authority that was originally intended under the Constitution.[123]

According to Herbert Emmerich, the major emphasis of the reports of the Commission was on centralized responsibility for policy making in a standard setting and on decentralized decision making and delegation of authority on operational matters.[124] Though the second Hoover Commission in 1953 also looked to these goals, as it was even more concerned with efficiency and economy in government, it did so from a different point of view. It looked to "limit governmental functions and to restrict and restrain the President" in order to achieve savings in expenditures of the Executive Branch without impairing the welfare or security of the United States.[125]

Nevertheless, reorganization in the Executive Branch since 1945 has followed the path of its new functions and activities rather than these and other committee's notions of efficient and economical organization. The number of governmental departments, agencies and establishments, alone, contributes to this impression. The official chart of the

---

[122] Ibid. [123] Ibid., pp. 96 and 88.

[124] Ibid., p. 90. [125] Ibid., p. 110.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Government of the United States in the U.S. Government Organization Manual for 1971-72 lists eleven executive departments and thirty-three independent offices and establishments. The chart does not include more than fifty other boards and commissions in operation nor the several hundreds of advisory commissions to the Federal Government.

It has been not only the number of boards, agencies and commissions composing the Executive Office which has increased, it has been, also, the number of employees working in them. The total figure has more than doubled since the late 1930's. In fact, on 12 March 1970, the President complained that the office had mushroomed in size but not by conscious design. In spite of its size, he claimed that it did not provide the support and assistance that the President needs to meet the Governmental problems of the 1970's.[126] Reorganization Plan No.2 of 1970, which accompanied the President's message, thereupon created the Domestic Council and replaced the Bureau of the Budget with the Office of Management and Budget within the Executive Office of the President.

The Council was composed of the President and the Vice President of the United States, eight Executive Department secretaries, the Attorney General, and "such other officers of the Executive Branch as the President may from time to time direct". The functions of the members of the Domestic Council were prescribed by Executive Order No. 11541 of 1 July 1970 as follows:

> (1) receive and develop information necessary for assessing national domestic needs and defining national domestic goals, and develop for the President alternative proposals for reaching these goals; (2) collaborate with the Office of Management and

---

[126] Ibid., p. 199.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

> Budget and others in the determination of national domestic priorities for the allocation of available resources; (3) collaborate with the Office of Management and Budget and others to assure a continuing review of ongoing programs from the standpoint of their relative contributions to national goals as compared with their use of available resources; and (4) provide policy advice to the President on domestic issues.[127]

U.S. Legislative Reorganization Acts of 1946 and 1970

One major effect of giving the Chief Executive the power to reorganize that branch has been to encourage Congress to undertake reorganization of it, also, by its own legislative power. During the period 1945 to 1962 when 52 Presidential plans were approved, 157 statutory reorganizations were undertaken.[128] Congress has also attempted at infrequent intervals, to reorganize its own structure and procedures. The Legislative Reorganization Act of 1946 and 1970 are notable in this respect. The 1946 Act in its Titles I and II are of interest because they are related to the rule-making powers and committee structures of the two houses and, in particular, contained provisions relating to budgetary procedures and the establishment of the first legislative budget in the United States.

Before the passage of the Reorganization Act of 1946,[129] neither the President's budgetary recommendations nor the policy issues at stake for the budget as a whole were considered. There was no point at which Congress considered the relationship between total estimated appropriations

---

[127] U.S. President, Executive Order No. 11541 (1 July 1970), U.S. Code Annotated, vol. 31 (St. Paul: West Publishing Co., 1976).

[128] Emmerich, p. 162

[129] Legislative Reorganization Act of 1946, Statutes at Large, vol. 50, Part I (1970).

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

and estimated revenues.[130]

The 1946 Act provided a way to change this procedure in its Section 138 (a) by providing for

> ... a legislative budget for the ensuing fiscal year, including the estimated over-all Federal receipts and expenditures for such year. Such reports shall contain a recommendation for the maximum amount to be appropriated for expenditure in such year which shall include such an amount to be reserved for deficiencies as may be deemed necessary by such committees. If the estimated receipts exceed the estimated expenditures, such report shall contain a recommendation for a reduction in the public debt. Such report shall be made by February 15.[131]

Furthermore, Section 138 (b) of the Act required that the report be accompanied by a concurrent resolution adopting the budget and fixing a spending ceiling for the year. If estimated expenditures should exceed estimated receipts, the section required Congress to specify that amount and to provide for its financing by an increase in the public debt at the same time.[132] When it came to implementing this section in 1947 with the legislative budget for fiscal year 1948, the House and Senate could not agree on either the amount of the reduction in the Presidential expenditure estimate nor where the reduction should be applied, to taxes or to debt. Hence, no legislative budget was adopted as the conference committee did not resolve the difference.[133]

---

[130] Smithies, p. 361 and Avery Leiserson, "Coordination of Federal Budgetary and Appropriations Procedures under the Legislative Reorganization Act of 1946", National Tax Journal vol.1,No2(June 1948),118-126, also reprinted in Improving Congressional Control over the Budget, (27 March 1973), pp. 520-527.

[131] Legislative Reorganization Act of 1946.

[132] Ibid.

[133] Leiserson, p. 523; J.P. Harris, Congressional Control of Administration (Washington, D.C.: Brookings Institute, 1964), Chapter 5 reprinted in Improving Congressional Control over the Budget (27 March 1973), pp. 395-471, see p. 399.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

The Joint Budget Committee procedure was more successful the following year only in that it issued a report with a dissenting minority which did lead to an early adoption of a concurrent resolution by both Houses of Congress. However, the resolution was deemed by both House and Senate members to be too general, the ceiling to have been adopted too early, and the Joint Committee itself to have "had no real idea of the proper relationship among expenditures, revenues, appropriations, and debt.[134] The ceiling on appropriations actually established was exceeded by more than $6 billion dollars.[135] The Joint Committee did not function the following year,

Twenty-four years later, the Legislative Reorganization Act of 1970[136] belatedly amended the provisions of the earlier Act concerning the legislative budget. The new Act repealed Section 138 of the old one though the legislative budget process had not been operative for twenty years. In addition, Section 242 of the new Act provided for hearings by the Committee on Appropriations on the budget as a whole. The committee is directed to consider "(A) the basic recommendations and budgetary policies of the President in the presentation of the Budget; and (B) the fiscal, financial, and economic assumptions used as bases in arriving at total estimated expenditures and receipts."[137] However, outside of the

---

[134] Leiserson, p. 524.

[135] U.S. Congress, Joint Study Committee on Budget Control, Interim Report, Improving Congressional Control Over Budgeting, Outlay and Receipt Totals, H.R. Report No. 93-13 (7 February 1973) reprinted in Improving Congressional Control Over the Budget (27 March 1973), pp. 174-207, see p. 185.

[136] Legislative Reorganization Act of 1970, Statutes at Large, vol. 84, Part I (1970).

[137] Ibid.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

printing and distribution of the testimonies received, there is no provision for the actual employment of this information in the budget-making process.

In addition to the overlapping areas of concern discussed above, the 1946 and 1970 Acts dealt with the problem of legislative oversight of the budget appropriations process as an annual affair.

The 1946 Act prohibited any general appropriation bill or amendment from being considered if it reappropriated unexpended balances except if these were part of appropriations for public works on which work had already begun. Moreover, the appropriations committees were directed to study "existing permanent appropriations and to recommend to their respective Houses what permanent appropriations, if any, should be discontinued.[138]

The more recent legislative reorganization Act took a more positive approach to the problem by directing committees of the Senate other than the Committee on Appropriations with the power to recommend the enactment of Federal Programs to study their bills for continuing programs to see if they could be modified to provide for annual appropriations.[139] In fact, the phrasing of the 1970 Act, particularly in Title II, which is appropriately headed "Fiscal Controls" suggests the movement away from the Executive Management doctrine and a return to the concern of Congress over expenditure control. This Title of the Act not only provides for a budgetary and fiscal data processing system but supplementary budget information, additional duties to Congress by the General Accounting Office,

---

[138] Legislative Reorganization Act of 1946, 60 Stat. 833.

[139] Legislative Reorganization Act of 1970, 84 Stat. 1175.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

changes in the rule-making powers of both Houses and the requirement that both the President's budget and the Committees of Congress other than the appropriations committee provide summaries of estimated expenditures for considered programs for four fiscal years following the ensuing fiscal year.[140]

This was not the first time, however, that multi-year projections for ongoing or new programs have been suggested. It was also required in a 1956 Act though not tabulated in the budget, and in the 1967 Legislative Reorganization Act which was not acted upon by the House but which incorporated multiple budget projections also.[141] Of course, with the Congressional Budget and Impoundment Control Act of 1974, to be discussed in Chapter 15, we do have now both multiple year budget projections and a legislative budget.

Additional U.S. Legislative Reforms

The 1946 and 1970 Acts do not cover all the ways that Congress has sought to reform Congressional procedures in budget-making. The Omnibus Appropriations Act of 1950, for example, consolidated all regular annual appropriations for that year into one bill. This experiment did permit Congress a more comprehensive view of total appropriations and it did achieve a larger percentage reduction from budget requests than prevailed in either 1949 or the year following.[142] However, the consolidated bill

---

[140] Ibid., sec. 221.

[141] U.S. Congress, Committee on Government Operations, "Five-Year Budget Projections" by C.W. Harris with research by W. Oleszak of Library of Congress in Improving Congressional Control over the Budget (27 March 1973), pp. 252-261, see pp. 252-253.

[142] D.J. Nelson, "The Omnibus Appropriations Act of 1950" Journal of Politics vol.15,No2 (May 1953) repr. in Improving Congressional Control over the Budget (27 March 1973),pp. 528-542, see pp. 535-536.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

was criticized as having delayed funds to governmental agencies, as not adequately revealing the relation between expenditures and revenues, and for lacking a Presidential item veto. It was abandoned after a single year's trial.[143]

Another way that Congress sought to oversee the budgetary process more closely had been recommended by the Second Hoover Commission in 1955. The suggestion was that the President's budget and congressional appropriations be put on the basis of annual accrued expenditures in place of the present authority to incur obligations.[144] This reform would enable Congress to vote expenditures annually and substantially eliminate the huge carryovers of spending authority from year to year. This, in fact, would make the process more similar to the French system where Parliament votes on payment crédits (expenditures) and not appropriations except for the programmes d'authorization.

However, Public Law 85-759 passed the House in 1958 and merely "authorized the President to recommend annual accrued expenditure limitations for any appropriations accounts when he determines that a satisfactory system of accrued accounting has been established." The Act terminated in April 1962 without having any effect.[145]

In another reform in 1968, Congress enacted a Revenue and Expenditure Control Act[146] which placed a limitation on the number of civilian

---

[143]Ibid., pp. 538-539; Harris, p. 401.

[144]Harris, p. 406.

[145]Ibid., p. 408.

[146]Revenue and Expenditure Control Sct of 1968, Statutes at Large, vol. 82, (1968).

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

officers and employees in the Executive Branch and called for a reduction in expenditures for fiscal year 1969. However, the initial budget ceiling was exceeded because of exceptions to the expenditure control provisions such as interest on the public debt and public assistance grants to states. Congress adopted spending ceilings again in 1970 with fewer exceptions to expenditure control but, in both years, actual outlays exceeded the spending ceiling. In 1970, the figure was 196.9 billion dollars in budget outlays compared to an upper ceiling limit of 193.9 billion dollars[147] and, in 1971, it was 211.6 billion dollars compared to a spending ceiling of 200.8 billion dollars plus 4.5 billion dollars to cover certain "uncontrollable" expenditures.[148]

---

[147] U.S. Congress, House, Document 91-436, 91st Congress, 2nd. Sess. (1970).

[148] U.S. Congress, House, Document 92-159, 92nd. Congress, 1st Sess. (1971).

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

CHAPTER 3

THE CONSTITUTION AND THE PUBLIC SECTOR

Overview of Chapter 3

The discussion of Chapter 3 is devoted to three major institutional contrasts between the two countries studied. The first concerns the role of the Executive versus the Legislature and includes each one's competence in financial matters as provided by the respective Constitutions of the two nations; the second concerns certain judiciary bodies, namely the French Constitutional Council versus the U.S. Supreme Court, and; the third concerns economic policy and the role of the French Economic and Social Council as opposed to the U.S. Council of Economic Advisers and Joint Economic Committee.

Role of the Executive versus the Legislature

When France adopted the Constitution of 4 October 1958, it became the foundation for the French political system which we know today as well as the fifteenth such document in French history.[149] It maintained, as the Third and the Fourth Republics before it, the fundamental principles of a parliamentary system which is the political responsibility of the Executive Branch to Parliament. The form of parliamentarism, however, differs from the classical in that it is midway between the latter and a limited monarchy. It has sometimes been called, "orléaniste"

[149] Maurice Duverger, Le Ve République, 4th edition revised, (Paris: Presses Universitaires de France, 1968), p. 14.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

(derived from Louis-Philippe d'Orléans and the Charter of 1830) because of this deviation. Executive powers are provided under this form of parliamentarism such that the Executive can dissolve the National Assemble at will and, in some cases, can proceed to referendums without ministerial countersignatures.

The Constitution of 1958 made use, also, of what came to known as rationalized parliamentarism after World War I. European constitutions tended to treat the codification of rules and regulations for their Legislatures and Executives with minute detail and precise inflexible mechanisms.[150] On the other hand, the Constitution of the United States, which has endured over 185 years and contains only twenty-six amendments, has never been accused of "rationalization." In fact, "So wide-ranging and yet so basically drawn are the clauses of the Constitution that it is hardly exaggerating to say that any citizen can challenge pretty well any act of the public authorities by alleging that it has acted unconstitutionally."[151]

On the contrary, the Constitution of the Fifth Republic very clearly spelled out legislative procedure and the organization of parliamentary work. In doing so, it added to the diminishment of parliamentary powers in two ways. First, it provided for the establishment of a control of the constitutionality of laws to the Government's gain, and secondly, in article 34, it placed firm limits on the domaine of law.[152]

The Constitution of 1958 has been revised three times since 1958,

---

[150] Ibid. [151] Finer, p. 213.

[152] Duverger, Ve République, p. 15.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

the most important revision occurring in 1962. The revision was fundamental because articles 6 and 7 now required the election of the President of the Republic by direct universal suffrage. Unlike the President and the Vice President in the United States, the French President under the Fifth Republic was elected for "seven years by an electoral college composing the members of Parliament, general councils and assemblies of overseas territories, as well as the elected representatives of municipal councils."[153] During the period 1958 to 1962, therefore, France was, once again, described as a "liberal dictatorship under the leadership of De Gaulle."[154] With the reform of 1962 and the election of the President by universal suffrage, France became more democratic, not totally, but it was now better described as "democratic Gaullism."[155] De Gaulle proclaimed that all State authority resided with him and tended to reduce the role of the National Assembly in spite of the powers it derived from the Constitution.

According to the Constitution, the President presides over the Cabinet or Conseil des Ministres, has pardon powers and countersigns Government bills. The President, also, presides over the Supreme Council of National Defense and appoints officials to the high military and civil posts of the State including the Prime Minister. It is the President, also, who appoints one third of the members of the Constitutional Council, a body which passes on the constitutionality of laws, while the

---

[153] France, Constitution, 4 October 1958, as amended 4 June 1960, 6 November 1962, 30 December 1963, trans. by French Embassy Press and Information Division in Constitution of Nations, vol. III, rev. 3rd ed., pp. 312-330, edited by A.J. Peaslie, prepared by D.P. Oxydes (The Hague: Martinus Nijkoff, 1968), Title II, art. 6.

[154] Duverger, Ve République, pp. 18-19.

[155] Ibid., p. 19.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

six members are appointed, three each, by the Presidents of the two Houses of Parliament. Actually, the President of France has similar duties to the President of the United States. One difference is, however, that the French President has the right to dissolve the Assembly after consulting with the Prime Minister and the Presidents of the two Houses of Parliament. The liberty of dissolution, however, cannot be performed more than once in a year and, not at all, if the President is operating under the emergency powers of article 16. In addition, differing from our own Presidential system, the French chief has the right to appeal to the electorate and not only Parliament through the referendum in three different cases: "any bill dealing with the organization of the governmental authorities, entailing approval of a Community agreement, or providing for authorization to ratify a treaty that, without being contrary to the Constitution, might affect the functioning of existing institutions."[156] The initiative for the referendum, however, must come from a Government proposal, or on joint motion of the two Assemblies. The President has two additional powers not provided the American President by our Constitution. He can assume almost dictatorial powers after consultation with the Premier, the Presidents of the Assemblies and the Constitutional Council in an emergency under article 16, and he "shall ensure, by his arbitration, the regular functioning of the Governmental authorities, as well as the continuance of the State."[157]

Of course, the largest differences between the French and the U.S. republics are not in the variations in the powers and functions of

---

[156] France, Constitution, art. 11.

[157] Ibid., art. 5.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

their Chief Executive but in his relationship and the Government's relationship to the legislative body. The United States Constitution provides for the organization of the main organs of Government specifying their powers and duties. The Constitution divides the Federal Government into three branches: the Executive, the Legislature, and the Judiciary. Initially, the last mentioned is dependent on the other two because the President appoints the Justices of the Supreme Court with the advice and consent of the Senate. Though it would appear that the Executive and Legislative branches are politically independent, they are functionally interdependent. Both the President and the Congress are elected by universal suffrage and neither House can be dissolved by the President. However, only Congress has the power to lay and collect taxes, to borrow money, to raise and support armies, "to make all laws which shall be necessary and proper for carrying into Execution the foregoing Powers."[158] In addition, "No Money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law; and a regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time."[159]

Not the least of the interdependence of the two branches are the special powers of the Senate which act as checks upon the President. All Federal appointments by the President are subject to the advice and consent of the Senate. All treaties negotiated by the President have to secure a two-thirds majority of the Senate to become operative.[160]

---

[158] U.S. Constitution, includes unratified amendments, prep. by Comm. on the Judiciary (Wash., D.C.: Gov't. Pr. Off., 1974), art. 1, sec. 8, cl. 18.

[159] U.S. Constitution, art. I, sec. 9, cl. 7.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Contrast this with the relations between the Executive and the Parliament in France. First of all, Government has a special meaning in France defined by the Constitution. It refers in its narrow definition to the Executive Branch below the level of the President. It encompasses the Prime Minister whom the President appoints, and the Cabinet composed of Ministers whom the Prime Minister proposes and the President also appoints. This Government determines and directs the policy of the Nation, is responsible to Parliament (on motion of censure must submit its resignation)[161] and directs the operation of the Government. It is, however, more than an autonomous organ, it is a link between the President of the Republic and Parliament. Furthermore, the President presides over the Council of Ministers which body has the collective decision-making power for the Government.

Thus, since the 1962 reform, the President has become the true Chief of Government. The members of this Government which include the Ministers and Secretaries of State look to the President and the Prime Minister as the leaders of endeavors to determine national policy. However, the governmental program, whatever it may be, must be approved by the National Assembly. The Assembly has the power to approve or to veto the governmental policy only, not modify it. As for the execution of the policy if approved, this is a personal power of the Prime Minister.

The Government in France, unlike the U.S., can initiate laws also as well as participate in their execution. This practice was very

---

[160] Finer, p. 223.

[161] France, Constitution, art. 49, 50.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

developed under the III Republic, forbidden under the Constitution of 1946 and officially recognized and renamed ordonnances instead of décrets-lois in the Constitution of 1958. Article 13 of Title III, "The President of the Republic," gives the President the right to sign ordonnances and decrees deliberated in the Council of Ministers. The Prime Minister and the members of Parliament both have the right to initiate legislation. In sum, according to article 38, "The Government may, in order to carry out its program, ask Parliament to authorize it, for a limited period, to take through ordonnances measures that are normally within the domaine of law." These ordonnances after being enacted in the Council of Ministers following consultation with the Council of State, must be submitted to Parliament for ratification prior to the expiration of the limited period or they are null and void. However, they are effective immediately regardless of Parliament's inaction. Furthermore, matters other than those described as within the domain of law prescribed carefully by article 34 are designated to be of "regulatory character" and, hence, within the domain of the Executive Branch. Legislative texts of this type can be modified by governmental decree.

Concerning Financial Laws

Nevertheless, financial laws are within the domain of law and the province of Parliament. "Financial laws shall determine the financial resources and obligations of the State under the conditions and with the reservations to be provided for by an organic law."[162] Only the Constitution may characterize certain refinements or clarifications of broad principles which it outlines as organic laws. These laws must then be

[162] Ibid., art. 34.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

passed and later amended according to the provisions for all Government and Parliamentary bills contained in article 45 of the Constitution. Furthermore, the organic laws "may be promulgated only after a declaration by the Constitutional Council on their constitutionality." In addition, "Laws pertaining to National Planning shall determine the objectives of the economic and social action of the State."[163]

But this is not all the Constitution has to say about financial laws. Finance bills which are initiated by the Government must be submitted first to the National Assembly. If finance bills or amendments are introduced by members of Parliament, they will not be considered if they would result in either a reduction in public financial resources or an increase or creation of public expenditures. The Government can declare also such bills or amendments inadmissable if they are not within the domain of law, or if they are contrary to the delegation of authority which Parliament may have authorized previously. For Governmental bills, only the Governmental texts of the bills submitted, may be discussed in either Assembly. They may be submitted to special committees of the respective House if the Government or that House requests it, otherwise, they are sent to one of the permanent committees, "the number of which shall be limited to six in each Assembly."[164]

Both Parliament and the Government have the right of amendment. The Constitution provides that the two Assemblies examine each bill successively and, in the event of disagreement on an identical text, that a joint committee meet to resolve the difference. The Government then submits the text prepared by the joint committee, refusing amendments if it

---

[163] Ibid.

[164] Ibid., arts. 39-42.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

chooses, to the two Assemblies. If this is not accepted or the joint committee fails to approve a common text, the Government may ask the National Assembly to rule definitely after a new reading of either its last text, one modified by one or more amendments of the Senate, or the text of the joint committee.[165]

Article 47 provides for the time limitations in the two assemblies for the passage of financial bills. It is stipulated as follows:

> Article 47. Parliament shall pass finance bills under the conditions to be stipulated by an organic law.
>
> Should the National Assembly fail to reach a decision of first reading with a time limit of forty days after a bill has been filed, the Government shall refer it to the Senate, which must rule with a time limit of fifteen days. The procedure set forth in Article 15 shall then be followed.
>
> Should Parliament fail to reach a decision with a time limit of seventy days, the provisions of the bill may be enforced by ordinance.
>
> Should the finance bill establishing the resources and expenditures of a fiscal year not be filed in time for it to be promulgated before the beginning of that fiscal year, the Government shall immediately request Parliament for the authorization to collect the taxes and shall make available by decree the funds needed to meet the Government commitments already voted.
>
> The time limit stipulated in the present article shall be suspended when Parliament is not in session.
>
> The Audit Office shall assist Parliament and the Government is supervising the implementation of the finance laws.[166]

On the other hand, the Constitution of the United States has much less to say on financial or budgetary matters. It does provide that all bills for raising revenues originate in the House of Representatives, but the Senate may propose or concur with amendments as on other bills. There is no stipulation of curbing the power of either House with respect to lowering public financial resources or increasing or creating public

---

[165] Ibid., arts. 44-46. [166] Ibid.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

expenditures though the Constitution does curb Congressional power to raise and support armies by declaring that "no appropriation of money to that use shall be for a longer term than two years."[167] In fact, any curbing of power in the U.S. Constitution is rather for the Executive than the Legislature. We have already quoted the clause referring to the fact that only appropriations by law permit money to be withdrawn from the Treasury.[168] Nevertheless, the offsetting power of the Executive is his signature. No bill, including a finance bill, can become a law without the Presidential signature unless both Houses reconsider it after his objections and pass it by a two-thirds majority.

That is about all the Constitution has to say about the finances of the U.S. with the single exception of our now most productive financial resource, the personal income tax. Prior to the 16th Amendment to the Constitution ratified on 3 February 1913, "No capitation, or other direct Tax shall be laid, unless in proportion to the Census or Enumeration herein before directed to be taken."[169] Finally, article I of the Constitution specifically forbids a tax or duty to be placed on articles exported from any state.[170]

The French Constitutional Council and the U.S. Supreme Court

There are other public organs described in the Constitution of France which are below either the President, the Government or Parliament in stature but are, nevertheless, an important influence in political decision making. One of them is the Constitutional Council. Though in

---

[167] U.S. Constitution, art. I, sec. 8, cl. 12.

[168] Ibid., art. 1, sec. 9, cl. 7.

[169] Ibid., art. 1, sec. 9, cl. 4.

[170] Ibid., cl. 5.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

name, it sounds similar to the Supreme Court of the United States, it is, in fact, quite different in terms of composition, function and powers. The Constitutional Council, as the Supreme Court of the United States, is a supreme legal power in France and is charged with controlling the constitutionality of laws but, in addition, it plays a more immediate and vital role than our own court. The Constitutional Council's intervention is automatic and obligatory in the case of organic laws which must be ruled upon for their constitutionality before they can be applied or promulgated.[171]

On the contrary, in the U.S., laws do not come before the Supreme Court unless a suit in law has been brought in contest. The Council, however, is called upon, also, to examine texts for the regulations of the legislative assemblies, which is an important way of limiting the liberty of Parliament. Our Constitution, in article I, section 5, explicitly permits each House to determine its own rules and to punish its own members. Other texts examined by the Constitutional Council are ordinary laws, international treaties and Community agreements. None of these examinations are obligatory, however, and the Court may or may not be requested to do so by the President, the Prime Minister, or one of the Presidents of the Assemblies.

Finally, as in the United States, the Council cannot be called to rule on constitutionality by simple individuals.[172] In addition, the Council's constitutional control refers only to laws voted by Parliament. The Council will not rule on laws adopted by referendum. With respect to its interventions in the legislative or regulatory procedures, this occurs before any definite text has been written. For law propositions

---

[171] Duverger, Ve République, p. 173. [172] Ibid., p. 174.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

and amendments, we have already suggested the limited domaine of law accorded Parliament and the Government's preogative of requesting power to legislate for limited periods from Parliament. In both cases, if there is a disagreement between Parliament and the Government on their respective domaines, the Constitutional Council must rule in eight days.[173]

In addition, the Council has three other powers which we need not discuss here but which are an important aspect of its activities. It controls referendums and Presidential and Parliamentary elections; it decides if the President is prevented from exercising his powers because of any impediment (physical or otherwise but not political) and, it is the Council who must be consulted prior to the invoking by the President of the emergency powers of article 16 and each measure, thereafter, which the President may promulgate.

Unlike our Supreme Court whose members are appointed by the President with the advice and the consent of the Senate for life, the members of the Constitutional Council may serve only once for a nine year term. One-third of its membership is renewed every three years. Three of its members are appointed by the President, and three each by the Presidents of each Assembly. There are, in addition, ex-officio life memberships granted to former Presidents of the Republic.

The French Economic and Social Council and the U.S. Council of Economic Advisors and Joint Economic Committee.

There is still another legal institution in France for which the United States has no counterpart or rather has resolved the functions performed and organizational scheme differently. It is what is called the

---

[173] Duverger, Ve République, p. 175.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Economic and Social Council in France and the Council of Economic Advisers and the Joint Economic Committee in the United States. Neither of the U.S. institutions, however, have such a large and wide-ranging membership nor as well-defined areas of competence as the French though they are similar in their purely advisory status. Both of the U.S. institutions were created by the Employment Act of 1946: the Council of Economic Advisers in the Executive Office of the President and the Committee composed of members of the Congress.

In section 2 of the Employment Act, the Congressional declaration of policy laid the basis for the birth of these two economic policy bodies:

> The Congress hereby declares that it is the continuing policy and responsibility of the Federal Government to use all practicable means consistent with its needs and obligations and other essential considerations of national policy, with the assistance and cooperation of industry, agriculture, labor and State and local governments, to coordinate and utilize all its plans, functions and resources for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work, and to promote maximum employment, production, and purchasing power.[174]

In addition, the Act provided for an economic report to be submitted by the President sixty days after the beginning of each regular session. The report was to contain both levels of, and trends in, employment, production and purchasing power as well as a review of the economic conditions prevailing and the effect of Federal programs on those conditions in the past year. Finally, the report was to recommend a program for carrying out the provisions of section 2 including necessary or desirable legislation.

---

[174] Employment Act of 1946, Statutes at Large, vol. 60, Part I, (1946(, U.S. Code, vol. 15, secs. 1021-1024 (1970).

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

This brief introduction to what is probably one of the briefest acts of such national importance to the Government of the U.S. set the stage for the two sections which created respectively the Council of Economic Advisers and the Joint Economic Committee. The former was to be composed of three members, all appointed by the President with the advice and the consent of the Senate. Each of the men, "shall be a person who, as a result of his training, experience, and attainments, is exceptionally qualified to analyze and interpret economic developments, to appraise programs and activities of the government in the light of the policy declared in section 2, and to formulate and recommend national economic policy to promote employment, production, and purchasing power under free competitive enterprise."[175]

The duties and the functions of the Council included assisting and advising the President in the preparation of the previously mentioned Economic Report along with developing and recommending to the President, "national economic policies to foster and promote free competitive enterprise, to avoid economic fluctuations or to diminish the effects thereof, and to maintain employment, production and purchasing power."[176]

In the second case, the Joint Economic Committee, composed of fourteen members, half of whom are appointed by the President of the Senate from his constituency and the other half by the Speaker of the House of Representatives from his, are to receive the Council's report and oher supplementary reports. They are responsible for a continuing study of matters relating to the Report together with coordinating programs to further the policy stated. The Committee is to report its findings and recommendations to each house of the Congress.

---

[175] Ibid., sec. 4.

[176] Ibid.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

There were two later amendments to the Act which altered the size and composition of what became the Joint Economic Committee instead of the Joint Committee on the Economic Report with Public Law 591[177] on 18 June 1956. The first on 17 February 1957[178] increased its size to eight members from each House and required five of the eight to represent the majority party. A second amendment on 25 January 1967[179] increased total membership of the Committee to twenty and of the half each House President appointed, six were to be of the majority party. The initial Act had required that representation on the Committee simply "reflect the relative membership of the majority and minority parties in the Senate and the House of Representatives."[180]

These were only some of the signs that politics and economics were inextricably related. In 1948, both a majority and a minority viewpoint appeared in the Economic Report of the President. The then fourteen members of the Committee split along political lines. Eight Republican members signed the Committee's Findings, while six Democrats signed the Minority Views on the President's Report, the Staff Report and the Summary of Recommendations which were also included in the Economic Report of the President but were left unsupported by either Republican or Democrats.[181]

In their criticism of the 1949 Report of the President, Republicans objected, among other things, to the fact that the Reports were becoming

---

[177] Ibid., Employment Act of 1946, Amendments to (1956), U.S Code vol. 15, secs. 1022, 1024; vol. 50., app. sec. 1916 (1970).

[178] Ibid., (1959), U.S. Code, vol. 15, sec. 1024 (1970).

[179] Ibid., (1967), U.S. Code, vol. 15, sec. 1024 (1970).

[180] Employment Act of 1946, sec. 5.

[181] Edwin G. Nourse, Economics in the Public Service (New York: Harcourt, Brace & Co., 1953), p. 48.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

too political and less scientific. They suggested that the Joint Committee's Report should contain purely economic discussion and analysis without too much attention given to social or political issues.[182] Nevertheless, the Economic Report of the President transmitted to Congress in February 1971, twenty years later, offered tribute to the 58 members of the Senate and the House who had served on the Joint Economic Committee since its inception.[183]

> For one thing, the Joint Economic Committee has come to be one of the major, ongoing, national seminars on economic policy. Witnesses at its hearings include Government officials, a wide range of scholars from the universities, leaders of Unions and businesses, and students of economic policy abroad. The membership of this Committee includes Chairmen and Senior members of major Legislative Committees; and the published Proceedings of Hearings and other Committee publications have had a marked influence on national thinking about public policy and have increased the understanding in Government and private circles of the problems and issues of economic policy and economic performance.[184]

This was an important declaration by the Council of Economic Advisers because its relations with the Joint Committee had not been clearly outlined by the original Act and caused friction almost immediately. Edwin Nourse, the first Chairman of the Council, believed that "the essential purposes of the Employment Act would be best served if the activities of the Council were beamed exclusively to the service of the President and the various agencies of the Executive Branch."[185] This point of view, however, was not sustained by the two other initial Council

---

[182] Ibid., p. 258.

[183] U.S. President, Economic Report of the President, trans. to Congress February 1971 together with the Annual Report of the Council of Economic Advisors, (Wash., D.C., Gov't. Pr. Office, 1971). p. 18.

[184] Ibid., p. 20.

[185] Nourse, pp. 203-204.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

members, Leon Keyserling and John Clark. Both members attended hearings of the Joint Committee, for example, while Nourse continued to uphold the Council's unique role as an intimate and essentially confidential professional staff service to the President. Edwin Nourse could not see how his mission could be accomplished if Council members are "drawn out of the Executive Office into the political atmosphere of the Hill."[186]

In addition to these different viewpoints respecting the role of the Council vis-a-vis the President and the Congress, there was a difference among the Council members on the economics of a full-employment economy. Nourse suggests, in this vein, that Clark felt the only way an economy can keep moving forward is to have prices, wages and profits rising.[187] Presumably, Nourse had a quite different approach but he did not express it at this point.

During the period 1938 to 1941, there had been a precursor to the Council. It was known as the Temporary National Economic Committee and it conducted an investigation of the functioning of the national economy. The Committee's purpose was to study the concentration of economic power in particular, but it broadened the scope of its work by drawing conclusions on its analysis of segments of the economy as to "the places at which changes in structure or practice were needed."[188] Most interestingly, the Committee was composed of three Senators, three Representatives, six administrative officers (Commissioners from the independent Executive agencies), an Economic coordinator, an Executive Secretary and an Economic Adviser.[189] These members are more suggestive of the French Economic and

---

[186]Ibid., p. 437. Appendix C., Edwin Nourse to Honorable J.C. Mahoney, Chaiman of the Joint Economic Comm., dated 9 Feb. 1952.

[187]Ibid., p. 281. [188]Ibid., p. 255. [189]Ibid., p. 255,

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Social Council than they are of the divided economic groups which emerged from the Employment Act of 1946. However, one thing which is common to all the various bodies described whether U.S. or French is that their roles are purely consultative.

The Economic and Social Council has no power of decision. It is a consultative body and its role is smaller now than it was formerly. According to one writer,[190] the original body, the National Economic Council, was instituted by decree of 16 January 1925 and modified by decrees of 19 June 1925 and 4 February 1926. During that period, the goals of the Council were to study the problems relevant to the economic life of the Nation, to look for desirable solutions and to propose the adoption of these solutions to the public powers. Its forty-seven members were attached to the présidence du Conseil and the President of the Conseil served as the President of the National Economic Council. Thus, the President of the Council of Ministers could consult the body directly though it could initiate a study of economic interest on its own. It, then, would make a report or a recommendation which was published in the Official Journal. These reports were also submitted to the Council President if they were approved by two-thirds of the members present.[191]

During this period, the Council received all laws passed of an economic nature. In those areas where the text of the law required obligatory consultation with the National Economic Council for the elaboration of the regulation of that law by the public administration, the advice of the Council was attached to the dossier submitted to the Council of State.

---

[190] Roger-Jean Goulon, À la Récherche de l'Équilibre Perdu (Paris: Les Oeuvres françaises, 1936), p. 89.

[191] Ibid., p. 90.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

The National Economic Council acquired a legal existence through article 134 of the Budget of April 1926 which authorized under the Council Presidency, the creation of a permanent administrative secretariat and the body, itself.[192]

The National Economic Council was chaired by the President of the Council of Ministers but he could replace himself by a Minister or an Undersecretary of State. The Council was to designate a permanent Committee for the purposes of gathering questions of various economic groups, coordinating the work of the various sections, preparing for the Assembly sessions, assuring relations with the public powers and providing for procedures in special and urgent cases.

In 1936, a law was adopted which identified rules for the Council. The thinking behind the new law was, in some part, evoked by the idea of a syndicate organization. It was addressed to the rights of citizens in a professional framework rather than the rights of citizens in a geographic framework.[193] Title III of the Constitution of 1946 reaffirmed the institution of the Economic Council as an advisory body. Propositions and projects of law are submitted to it by the National Assembly or it may be consulted by the Council of Ministers. The latter is obliged to consult it upon the establishment of a national economic plan which strives for full employment and rational utilization of material resources.[194]

The Constitution of 1946, in comparison with the one of 1958, gave the Council a semi-Parliamentary character. In fact, members of Parliament

---

[192] Ibid.

[193] Ibid., p. 93.

[194] France, Constitution de la République francaise, 1946 Journal Officiel, (28 Oct. 1946), Title III.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

were not permitted to participate in the Economic Council[195] and members of the Council received two-thirds the remuneration of a parlementarian. Its competence, however, changed even before the new Constitution was adopted. French Law No. 51-355 of 20 March 1951 relative to the composition and the functioning of the Economic Council provided in its article 1 that the Council might examine all projects, propositions of law, international and social conventions of economic and social nature which fall within its technical competence except the budget. It could still, however, act as an advisory body on national economic plans designed to achieve full-employment and rational utilization of material resources. The law provided as well for an anuual report on the development of these plans along with suggested modifications in view of economic facts which might appear to warrant them. Twice a year, the Council is to report on the economic situation with respect to changes in national revenue and to suggest ways, if necessary, to raise the level of production, consumption and exports. These reports are presented to both Houses of Parliament by the reporter of the Council who explains the body's advice if it is unanimous and, if divided, offers the majority and the minority points of view.

Probably, the most important innovation with respect to the newly titled Economic and Social Council under the Constitution of 1958 as opposed to previously, was the creation of permanent sections. The 1951 law did mention that committees should be organized in specialized areas but left the details to be spelled out by future laws. An ordonnance 29 December 1958, therefore, created a section on social activities, one

---

[195] Ibid., Title II

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

on the adaptation of technical research and economic information, one on the expansion of the exterior economy, one on regional economics, one on technical cooperation with the member States of the Community. These were the permanent committees but others could be created by decree in the Council of State.

According to Title X of the 1958 French Constitution, the Economic and Social Council may be consulted by the Government on ordonnances or decrees or any problem of an economic or social character and by the Government or Parliament on bills. The composition of the Council is determined by an organic law which increased its membership from 169 under the 1946 Constitution to 200 under the new one. Its members were drawn from the salaried groups such as workers, functionaries and technicians(45), industrial, commercial and artisan enterprises (41), agriculture (40), overseas territories (35), and qualified persons in the economic, social, scientific or cultural domaine (15) representative of social activities such as public health and housing (15), representatives of diverse fields such as television, export and production cooperatives (7) and, finally, representatives of the middle classes, 'classes moyennes' (2).[196]

These members of the Council are designated broadly in two ways. Some are nominated by professional, economic or social organizations and the rest are nominated by the Government by decree. In 1946, only about 8 percent of fourteen of the 169 members were named by the Government. This fraction rose to 30 percent or sixty members of two hundred under the 1958 Constitution. In addition, the Government has the right to call exceptional members for special sections of the Council for a determined period.[197]

---

[196] Duverger, Ve République, pp. 186-187.

[197] Ibid.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

The functions of the Council remained fundamentally similar under the 1958 Constitution but less extended than previously. It was still based on the syndicalist idea of collaboration of different professional categories, employers and employees. It had somewhat less of a role with respect to Parliament than with Government than formerly. The Council did add a new function, however, to its list. It was now to study along with its other concerns, the consequences of technical progress. Finally, it was to study the different forms of participation of the Republic in the economic and social development of the Community.[198]

In one way only, did it appear that the competence of the Council was extended under the new Constitution, and that was the government could ask the Council to aid in the preparation of "projects de lois de programme" or, economic or social plans. Its advice in these last cases, even if it did not participate in preparation is obligatory with the exception, once again, of the budget.

---

[198] Ibid., p. 189.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

PART II

GENERAL THEORY AND PRACTICE OF THE BUDGET AND THE BUDGETARY PROCESS

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

CHAPTER 4

PRINCIPLES AND CONCEPTS AND THEIR EVOLUTION

Introduction to Part II

The present chapter and the three which follow it compose Part II, General Theory of the Budget and the Budgetary Process. The four chapters are devoted to an intensive examination of the budget from two major viewpoints: the theoretical in the first two chapters, and the practical in Chapter 6 and 7. In Chapter 4, we are concerned with alternative views of the budget including rules for financial guidance, for equilibrium, and as guiding principles for the budget policies. In Chapter 5, "Theories concerning the Budget Balance or Imbalance and Its Financing," a more detailed approach is followed to reveal the French and U.S. positions on the differences between expenditures and receipts. The important but rarely discussed linkage between budget imbalances and the financing of them is explored.

In Chapter 6, "Presentation of the Budget," we are concerned with the format of the budget as it is submitted to the Legislature. In order to achieve this purpose, the discussion and the tables center on that presentation described by the Laws of 1956 and 1959 in France and the unified budget as it was introduced by the Executive in 1969 in the United States. The U.S. budget document for fiscal year 1977 is presented, also. The last chapter of Part II, Chapter 7, "Contents of the Budget Over Time," will then focus on a comparative discussion of the major categories of receipts and

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

expenditures as well as resulting balances in the two countries. Some tables will follow the path of the arguments along with tracing the growth of the various categories over the period.

Overview of Chapter 4

In theoretical discussions, the French began earlier and with a more formal and didactic approach to budgeting than writers in the United States. Writers including Gaston Jèze, Fritz Neumark and Johannes Seidel contributed to lists of budgetary principles and rules which would serve the ends of clarification and comparison. The ability to pay and benefit doctrines of taxation contributed to the analysis of appropriate principles for overall budget policies.

When the United States finally joined the search for guiding principles, the emphasis was placed initially on the objectives of efficiency and stabilization. Verne B. Lewis, Arthur Smithies and Jesse Burkhead, among other writers discussed, sought rules for economy and efficiency in Government with emphasis upon effectiveness and least cost procedures. Some of the proposed rules included are the stabilizing budget (later called the full employment budget), the national economic budget and the capital budget. According to Smithies, the stabilizing budget held the most attraction for the United States economy even though it, as well as other rules, did not resolve the problem of the maintenance of a stable price level.

On the other hand, the French were more attracted to the national economic budget rule. This rule was applied, in fact, by the Decree of 1956 and continued by the Ordonnance of 1959 which called for the integration of the Government's budget into the national income accounts.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Principles of Budgeting

One must indicate at the very beginning of any theoretical discussion of national budgets that, in the United States, we do not have the long history of them which prevails in most parts of the western world. Perhaps, that is why J.W. Sundleson could write in 1936 that, "In American literature dealing with Government budgets, one finds very little discussion of either the theoretical aspects or the fiscal implications of budget-making.[199] No one could have written that statement about the French literature, even before the beginning of the Twentieth Century.

Theoretical aspects of the budget of France in the year, 1921, may be best explained by Gaston Jèze' notion of a budget: "the true budget forecasts, enumerates, evaluates and compares the expenditures and the receipts for a future period."[200] The emphasis in French thinking about the budget was and has remained that it is a plan of action and an essential act of Government in forecasting the needs and resources of the future.[201]

However, Gaston Jèze claimed that it was England which was the first to use the principles on which the notion of the modern budget rests. The first step, according to him, was the recognition that the principle of taxation required the consent of representatives of those who must pay the tax. Once this principle is admitted, it implies that

---

[199] J. W. Sundleson, "Budgetary Principles," Political Science Quarterly, vol. 1, No. 2, (June 1935): 236-263.

[200] Gaston Jèze, Traité de Science des finances: le budget (Paris: V. Giard et E. Brière, 1910), p. 5.

[201] Ibid.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

voters have the right to survey the use of tax revenues and to duscuss the reasons which necessitate taxation in the first place. Then, adds Jèze, this leads to the power to discus all receipts and expenditures, and finally, to obtaining the power to vote expenditures and receipts periodically. With this background, the State Budget of France was defined on 31 May 1862 as, "The Budget is the act by which are forecast and authorized the annual budgets and expenditures of the State or of other service branches of the State that the law subjects to the same rules".[202]

The budget of the United States was not formally defined until the Budget and Accounting Act of 1921. According to section 201 of the Act, "The President shall transmit to Congress on the first day of each regular session, the Budget, which sets forth in summary and detail" numerous data. These data may be paraphrased as follows: estimates of Government expenditures, appropriations and receipts for the ensuing fiscal year, amounts of all appropriations available for expenditures during the current fiscal year, balanced statements of the Treasury for the last completed year as well as estimates for the current and ensuing fiscal year, state of Government indebtedness, and all other essential financial data.

In spite of the adoption of a budget definition, American authorities did not devote much time to the investigation of principles upon which the definition rests until a much later date. Nevertheless, according to J.W. Sundleson, "the essence of any analysis or comparison of budgets is the problem of seeing the budget in relation to its background in the fiscal system and in the wider problems of a particular government".[203] In order to achieve this end, he suggests the desirability of using selected

---

[202] Ibid. p. 9; cf. above, Chapter 1.

[203] Sundleson, pp. 236-237.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

budgetary principles as norms for description and comparison. The particular principles should be selected according to the problem under investigation. They should be chosen from a list which includes "comprehensiveness, unity, non-assignment of revenues, prior authorization, specification, annuality, accuracy, clarity, publicity and exclusiveness" as the most frequently encountered.

Sundleson cites Gaston Jèze, Fritz Neumark and Johannes Seidel as contributing to the systems which formed the basis for classification of these principles. Jèze, according to Sundleson, was the least consistent in his presentation of the material and used overlapping classifications such that the same principle could appear under more than one heading. Part II of the Jèze work for example, was devoted to the respective powers of the Executive and the Legislature, while Part III was devoted to Budgetary Procedures.

Neumark's classification system, on the other hand, is dependent on the "currently popular concepts of statics and dynamics." In the "statics" category, the principles deal with the budget "in equilibrium" are included, while in the "dynamics" category, procedural principles are stressed in the passage of the budgetary cycle.[204]

Finally, Seidel's system is similar to Jèze in that the principles are grouped according to the specific question which they answer. For example, the question "when is the budget presented?" is answered according to the principle of "prior" authorization.[205]

Sundleson finds fault with all three classifications because they do not satisfy what he defined as the primary interest of an artificial classification; that interest "is in arranging the information in such a

---

[204] Ibid., p. 241.

[205] Ibid., p. 242

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

manner as to make it clear whether the study is concerned with a relation of the budgetary system to the fiscal activities of government, the manner in which the budgetary methods employed treat the factors it contains, or whether the interest is in the physical appearance of the budget document and the manner in which it is publicized.[206] These three objectives, then, become the basis of Sundleson's scheme of classification as stated below:

I. Relation between the budgetary system and the fiscal activities of the political unit
   - (a) Comprehensiveness
   - (b) Exclusiveness

II. Treatment by the budgetary mechanism of the factors included in the system
   - (a) Unity
   - (b) Specification
   - (c) Annuality
   - (d) Accuracy

III. Forms and Techniques for presentation of the budget contents
   - (a) Clarity
   - (b) Publicity [207]

Defining the principles included, according to Sundleson, is the next step. Comprehensiveness, in his framework, is the basic budgetary principle and it means that all governmental expenditures and receipts must be included in the budgetary procedure and be subject to the budgetary mechanism. A corollary of this principle is exclusiveness. Exclusiveness is directed particularly against "riders" and argues that non-fiscal material is irrelevant to budget matters. The United Nations in its classification system has argued, also, along similar lines. The necessity for comprehensiveness in budgeting is paramount in their opinion.

---

[206] Ibid., p. 243.

[207] Ibid.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

"The accounts should present the total extent of the Government's influence on the economy, not only in the form of its contribution to the national product or national income but also through such income-redistributing factors as subsidies, social security benefits and tax revenues.[208] This leads, in addition, to defining receipts and expenditures resulting from Government activities "other than production, trading and finance" on a gross basis. However, interdepartmental transactions should be eliminated from either category along with the "balancing items," such as proceeds of borrowing and redemption of debt. In addition, receipts of foreign grants and certain types of monetary operations, e.g., seignorage, should be excluded. When demonstrating the Government's consolidated cash position, though, all these items must be included and the method of financing the gap between expenditures and receipts indicated.

In his second group, Sundleson included some additional principles. Unity refers to the unified treatment of all revenues and expenditures such that none are considered separately from the rest of the budget. It is this principle which requires a general fund of the Treasury only, but does not preclude a system of multiple budgets as long as there is no irregular balancing policy, according to Sundleson.

Specification is a principle that raises several budgetary problems. Among them are the choice of using lump sum appropriations as opposed to line budgeting items and the choice of whether the budget should be voted on as a whole or in parts. Sundleson finds that Neumark's contribution to the classification of the problems raised is most valuable.

---

[208] United Nations Department of Economic Affairs, Budgetary Structure and Classification of Government Accounts, (New York: United Nations, Feb. 1951), pp. 7-8.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Neumark divides the principle into quantitative and qualitative specifications. In the former group, "Appropriations are to be expended solely for the purposes specified in the budget." In the latter group, "expenditures are allowed only when, and to the extent that, funds are provided in the budget." One distinguishes between the two classifications by noting that violation of quantative specification disturbs budgetary equilibrium directly while violations of qualitative specifications may not necessarily do so.[209] Some of the other underlying aspects of the specification principle which Neumark suggests must be analyzed are supplementary or rectificative budgets, and cash versus accrual budgeting.

In the principle of annuality, Sundleson finds unfortunate terminology which "has distracted attention from the real issue to a defense or criticism of the year as a specific unit of measure for budgetary purposes."[210] The length of the fiscal period, according to Sundleson, has an important bearing on problems of public finance such as estimating and the question of balancing.

The accuracy principle relates to the method of estimating revenues. It has to do, therefore, with honesty and sincerity and objectivity in the preparation of estimates.

In the principles of Group III, clarity refers to an understandable presentation of the budget which "leaves room for no doubt or choice in the minds of those who read or are guided by the budget." Publicity refers to the fact that the public "should be in full possession of all facts about the State's finances." It refers, also, to "prompt publication of the budget documents, the opening of legislative and committee

---

[209] Sundleson, p. 251.

[210] Ibid., p. 253

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

discussions to the public and the dissemination of budget information."[211] This principle has become more prominent in U.S. budgetary thinking than ever before with the official passage of what has become known as the "Government in the Sunshine Act," on 13 September 1976. The measure would require some fifty Federal agencies "--almost all but the Cabinet departments--to meet regularly in open sessions."[212]

Theories Concerning Budget Policies

Another aspect of rules in budgeting or the lack of them was lamented by V.O. Key in an article entitled, "The Lack of a Budgetary Theory," published in 1940. "One of the most significant aspects of public budgeting," states Key, "i.e., the allocation of expenditures among different purposes so as to achieve the greatest return, American budgetary literature is singularly arid."[213] European literature, on the other hand, contained many debates on the guiding principles of budget policies. Budgetary policies discussed through most of the 19th century European literature were concerned with the so-called "ability-to-pay" approach. With the help of marginal analysis in the last quarter of the 19th century, the doctrine was refined to read "that the cost of public services should be allocated so as to cause least total sacrifice: and, then, "the distribution of income should be arranged so as to secure maximum total satisfaction."[214] The ability-to-pay approach was not a

---

[211] Ibid., pp. 258, 260.

[212] Congressional Quarterly, "'Sunshine Bill Signed," CQ Weekly Report, vol. XXXIV, No. 38, (18 Sept. 1976): 2558 and "Government in the Sunshine Approved 390-5" by Ted Vaden, CQ Weekly Report, vol. XXXIV, No 31, (31 July 1976(: 2067.

[213] V.O. Key, Jr., "The Lack of a Budgeting Theory" The American Political Science Review, vo. XXXIV, No. 6, (Dec 1940), p. X.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

full answer to the determination of budget policy because it ignored public expenditures. Pigou was one of those who extended the doctrine by his insistence that the total tax-expenditure level should be determined so as to equate the marginal sacrifice of taxes with the marginal benefit of public expenditures.

There was another approach to general budget policies, the "benefit" approach. It was first described by Adam Smith and it incorporated fees or direct charges for those public services which could be financed in that way. The approach was developed by several European writers including the Swedish economist, Knut Wicksell. He extended the range and applicability of the benefit principle of taxation, relating the principle to Parliamentary approval of taxes for the first time. The principle, stated Wicksell, required that "no public expenditure ever be voted upon without simultaneous determination of the means of covering the cost."[215] Furthermore, according to Wisksell, as long as an expenditure holds any prospect of creating utility which exceeds cost, just taxation does not require any rigid tax formula.[216]

The most complete formulation of the "benefit" doctrine was then presented by Erik Lindahl in 1919. Lindahl developed a voluntary exchange model where the price of public services are determined in a similar fashion to those of private goods and service. However, the model is not as satisfactory as that of Wicksell because it loses sight of an important aspect of the public budget problem: the "free rider"

---

[214] R. A. Musgrave and T.T. Peackock, eds., Classics in the Theory of Public Finance, (New York: St. Martin's Press, 1967), p. X.

[215] Knut Wesksell, "A New Principle of Just Taxation," translated from German by J. M. Buchanan in Classics in the Theory of Public Finance, pp. 72-118, edited by R.A. Musgrave and T.T. Peacock, p. 91.

[216] Ibid., pp. 39-90.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

problem, individuals will contribute nothing to public services unless they are forced to within the structure of the political process.[217]

In the United States, one of the first writings concerning budgetary principles appeared thirty years later in 1949 by James M. Buchanan. Buchanan conceived two possible theories of Governmental finance: one based on an "organismic" theory in which "the state, including all individuals within it, is conceived as a single entity" and an "individualistic" one where "the State is represented as the sum of its individual members acting in a collective capacity."[218] However, Buchanan points out that these are actually opposing theories because one, the former, subsumes individual interests to the State while the latter opposes the individual interests to the State.

In the decade of the 50's, much new ground was broken through intensive study of the budget, normative theories of public expenditure, and governmental organization by American economists. One of the first steps appears to have been taken by Verne B. Lewis in an article entitled, "Toward a Theory of Budgeting."[219] In the article, Lewis introduced budgetary propositions which rested upon the "comparison of relative merits of alternative uses of funds" in terms of their "relative effectiveness in achieving a common objective," and the use of incremental analysis. He suggested, also, an alternative budget system to enable the application of his economic principles. Lewis would require each administration

---

[217] Musgrave and Peacocok, pp, xv and xvi.

[218] James M. Buchanan, "The Pure Theory of Government Finance," Journal of Political Economy, vol. LVII no. 5 (Oct. 1949): 496-505.

[219] Verne B. Lewis , "Toward a Theory of Budgeting," Public Administration Review vol.XII, no.1 (Winter 1952): 42-54.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

official who prepares a budget estimate to propose both a basic budget and at least two alternative plans calling for sums above and sums below the basic one. The alternative levels would apply for every official from the President down. Revisions would take place as necessary when the information proceeded back up to the President but always in the alternative plan framework. Finally, the President would submit alternative budgets to Congress. All of this, comments Lewis, would tend "to stimulate further consideration of the economic aspects of budgeting."[220]

Three years later, and after Paul Samuelson had made his sophisticated individualistic statement of efficiency in the allocation of public goods,[221] Arthur Smithies wrote the modern classic on budgeting, The Budgetary Process in the United States. Arthur Smithies adopted as the focus of his study propositions similar to Lewis though now posed as questions. The questions were concerned with the effectiveness of expenditure decisions in relation to policy objectives, in relation to taxation and cost elements, and in relation to economy and efficiency in Government operations.[222]

Another positive approach to budgeting was adopted by Jesse Burkhead for his book, Government Budgeting, published in 1956. "The study of Government Budgeting is a study of applied economics--in the allocation of public resources."[223]

---

[220] Ibid., pp. 42, 48 and 54.

[221] Paul A. Samuelson, "The Pure Theory of Public Expenditures," Review of Economics and Statistics, (Nov. 1954), pp. 387-389.

[222] Smithies, pp. 8-9.

[223] Burkhead, p. vii.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

The positive approach to the public budget was entirely rejected by Richard Musgrave[224] just a few years later. "Our normative model of the public economy is not designed to be realistic in the sense of describing what goes on in the capitals of the world. Rather, it is designed to show what would go on if an optimal result were achieved." By adopting this point of view, Musgrave was able to justify his separation of the functions of the public sector and, hence, separate budgets for allocation, distribution and stabilization branches of the central Government. However, this was done, according to Musgrave, not because they cannot be consolidated but to emphasize the different considerations and planning objectives of the national budget. The problem in the real world is "the tendency...to view the budget in consolidated terms from the outset, and thus to confuse the underlying issues in the planning stage."[225]

Notions of the Franch budget over this period, though closer to the normative approach, were growing along different paths. French economists were more concerned with the relation between the budgetary system and fiscal activities of the political unit. This topic was only briefly dealt with by Arthur Smithies and Jesse Burkhead and not fully developed in the United States until the late 1950's.[226] Furthermore, the French consideration of this relationship grew out of their conscious utilization of budgetary rules as described above. These rules, in the French version, had been expressed during the period 1884-1885 by Léon Say, "(1) the

---

[224] Richard A. Musgrave, The Theory of Public Finance, A Study in Public Economy, (New York: McGraw-Hill Book Co., Inc., 1959).

[225] Ibid., pp. 37-38.

[226] Lewis H. Kimmel, Federal Budget and Fiscal Policy 1789-1958, (Wash., D.C.: Brookings Institute, 1959). See Smithies, Chap. 13; and Burkhead, Chap. 3.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

budget must have unity, (2) the budget must be annual, (3) the budget must be made in advance, and (4) the budget must represent an accounting personality."[227] The early 20th Century French economist, Rêné Stourm, however, identified only two qualities which he claimed included all the others:

"1. Budgets must describe in extenso all the operations relating to revenues and expenditures, clearly and frankly." This rule, Stourm calls the rule of universality (comprehensiveness) of plan. "2. Budgets must estimate revenues and expenditures as exactly (reliably) as possible."[228]

More recent French speculation on these classical budget rules serves to enhance their new role as guiding principles for budget policies. Maurice Duverger tells us that the fundamental elements of the classical budget are that it is purely a financial document; that it must be in equilibrium: receipts equal to expenditures; and, that it must be on an annual basis.[229] According to Louis Trotabas, on the other hand, the general notion of the traditional budget really has two sides: a financial and accounting side, and its political side.[230] In its financial and accounting aspect, it tends to resemble any enterprise which must assure its continued operation of activities. In its political aspect, it gives Parliament all powers of decision with respect to regulating the budget. It is the first conception of the budget, primarily, which leads to the strict interpretation of budgetary equilibrium identified by the classicists.

---

[227] Quoted in Rêné Stourm, The Budget, translated by Thaddeus Plazinski from 7th ed. of Le Budget, Paris: 1913, (New York: D. Appleton & Co. for Inst. of Government Research, 1917), p. 145 footnote.

[228] Ibid., p. 145-146.

[229] Duverger, Finances publiques, p. 203.

[230] Trotabas with Cotteret., p. 75.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

They sought expenditures equal to receipts because without this rule, individual rights would be violated, so they said. If there were a surplus of receipts, this revealed an unjustified drawing down of private wealth and, in addition, would generate new public spending when the object is to restrain it. If, on the other hand, there were a deficit indicating expenditures in excess of receipts, the classicists saw a double danger: bankruptcy and inflation.[231] Bankruptcy might occur in the event the State needed to apply for additional loans after the initial one to finance the deficit. These secondary loans might be needed to pay the interest and amortization on the debt. If new lenders are not found, the danger of bankruptcy arises as the State renounces the service charges and retirement of the debt. The danger of inflation concerned them even more as the classicists observed that, if the State printed money to finance its deficit, that would increase the number of means of payment without increasing the amount of consumable goods. Therefore, inflation would result from the depreciation of the real value of money as prices rose. The inflation would be aggravated by increasing public expenditures as prices rose and, an increasing deficit. Thus, the resulting tendency to print more money.[232]

Foundations of U.S. Budget Policies

However, this classical point of view arguing for budget "balance" was ill-suited for the years following the Great Depression and was successfully challenged by the great English economist, John Maynard Keynes. Once Keynes denied the classical assumption "that supply creates its own demand in the sense that the aggregate demand price is equal to the

[231] Ibid., p. 40 and Duverger, pp. 221-222. [232] Ibid.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

aggregate supply price for all level of output and employment,[233] the topic of budgetary equilibrium was on a different footing. If, as Keynes claimed, "we oscillate, avoiding the gravest extremes, of fluctuation in employment and in prices in both directions, round an intermediate position appreciably below full employment and appreciably above the minimum employment," then, his advice given at a later point is that "the State will have to exercise a guiding influence on the propensity to consume partly through its scheme of taxation, partly by fixing the rate of interest, and partly, perhaps, in other ways" to secure full employment. Keynes conceived, in addition, that the State's banking policy effect on the rate of interest might not succeed in achieving the optimum rate of investment. Thus, he concludes, "a somewhat comprehensive socialization of investment will prove the only means of securing an approximation to full employment."[234]

A theory such as this one, therefore, lifted the question of budgetary equilibrium out of the simple quantitative area of technically balancing the State's receipts and expenditures and into the qualitative area of balancing the effects of the State's receipts and expenditures within the framework of global economic equilibrium. Economic theorists in Europe and the United States responded to the new theory and discussed its relationship to Government budget policies. Keynes, himself, did not further elaborate on the form these policies should take.

It was largely Alvin Hansen, at first, who reinterpreted the

---

[233] John Maynard Keynes, The General Theory of Employment, Interest and Money, (New York: Harcourt, Brace & World, Inc., A Harbinger Book, 1964), pp. 21-22.

[234] Ibid., pp. 254 and 378.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Keynesian doctrine[235] in an attempt to explain the advantages of a compensatory fiscal policy followed by the State to attain full employment:

> If one adopts wholeheartedly the principle that Government financial operations should be regarded exclusively as instruments of economic and public policy, the concept of a balanced budget, however defined, can play no role in the determination of that policy.[236]

Hansen argued, further, that contrary to classical doctrine, the limits of public debt are determined in relation to a nation's taxable capacity and the distribution of income, not only in view of the danger of price inflation.

Abba P. Lerner extended this thinking by viewing Government debt, revenues and expenditures solely as means to influence total community expenditure.[237] Debt instruments when sold to the public, reduce liquidity and, hence, spending power; when redeemed, debt instruments have the opposite effect. Thus, selling Government debt, reducing Government expenditures, increasing Government taxes are tools to be used to reduce the community's spending power in time of inflation, while the opposite policy is appropriate to cure depression. However, Jesse Burkhead comments that the policy-making official trying to utilize this theory of "functional finance" has no criteria available for choosing among them and "no guides for the selection of alternative Government expenditures[238]

In spite of the later broad impact of Keynesian theories, Burkhead could write in 1956 that "The practical influence of Keynesian economics on budgetary concepts and procedures in the United States has been almost

---

[235] Alvin Hansen, Fiscal Policy and Business Cycles, (New York: W.W. Norton & Co. Inc., 1941).

[236] Abba P. Lerner, "Functional Finance and the Federal Debt," Social Research, vol. 10 (Feb. 1943: 38-51).

[238] Burkhead, p. 446.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

nil." He ascribes the outcome as the result of both real and attitudinal factors. The attitudinal factors encompass the public's view of Government budgets in terms of household budgets; the fear of the consequences of increased Government spending; and the general opposition to a "managed economy." Real factors which Burkhead places on an equal footing with the above include the guidance that the balanced budget rule affords for transferring resources from the private to the public sector given full employment and the contribution of unbalanced budgets to inflation in the same circumstances. Burkhead complains, "Unfortunately, the Keynesian attention to budgetary effects has been accompanied by inattention to the problem of control.[239]

Arthur Smithies placed the matter in a somewhat different context. "In short, the balanced-budget rule fails to recognize that the economic cost of the budget is least when business is slack and resources unemployed and greatest when business is booming and resources are scarce -- with the corollary that tax revenues, in relation to expenditures, should be high in booms and low in depressions."[240] Smithies asked, therefore, why do practical men cling to the balanced budget rule? His answer was that the economic logic developed against the rule "has not been translated into a practical rule of budgetary conduct that has won political acceptance."[241]

Smithies discussed several alternative budgetary principles: the national economic budget, the stabilizing budget, the capital budget in relation to the total size of the budget and the economic growth of the private and public sectors together. The more recent full employment budget concept is but a more advanced version of Smithies stabilizing

---

[239]Ibid., pp. 448 and 452. [240]Smithies, p. 439. [241]Ibid., p. 444.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

budget approach.

The National Economic Budget (NEB), explained Smithies, requires that the prospective state of the NEB should serve as the criteria for budgetary policy. "The objective of policy should be to achieve an efficient use of economic resources under conditions of high and stable employment and reasonably stable prices."[242] He rejected the rule, however, because of the inaccuracy of the forecasts necessary for such a policy and because the method does not compare benefits and costs of public programs in an intelligible manner for citizens and Congressmen.

The stabilizing budget, on the other hand, "has great merits from the viewpoints of both principle and practice." The general rule as proposed by the Committee for Economic Development, claimed Smithies, is that "taxes and expenditures should be such that, at an appropriate high level of income, they would yield a surplus of about $3 billion in the consolidated cash budget." With this definition, there is a clear-cut rule of budgetary conduct, the high income yield of taxes is a more appropriate basis for programming, the estimation problem is less open to error, and finally, the "proposed budget automatically exerts a stabilizing influence on employment."[243]

Nevertheless, neither the stabilizing budget nor any other budget policy resolves the problem of the maintenance of a stable price level, according to Smithies. The stabilizing budget does make the problem more apparent as the Government must announce on what price level their estimates are based. There is one last important objection relating to the validity of the $3 billion surplus mentioned. It may well be that this figure is not appropriate and/or budget policy must be supplemented by

---

[242] Ibid. [243] Ibid.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

other measures to achieve full employment.

The modern version of the stabilizing budget, the full employment budget, completely replaced the balanced budget rule for actual expenditures and receipts by a balanced-budget rule for potential expenditures and receipts at full employment. In the Economic Report of the President issued in February 1971, the President reflected on this new rule, "we need to abide by a principle of budget policy which permits flexibility in the budget yet limits the inevitable tendency to wasteful and inflationary action. The useful and realistic principle of the full employment budget is that, except in emergencies, expenditures should not exceed the revenues that the tax system would yield when the economy is operating at full employment."[244]

The principle had the additional attraction, which was noted by the Council of Economic Advisers in their first official use of it in their Annual Report of January 1962, that "the effect of Federal receipts and expenditures on the income stream are most accurately represented when the budget is viewed in the framework of the National income accounts".[245] The Council viewed the full employment budget doctrine as a way of distinguishing between automatic changes in revenues and expenditures and discretionary ones. It saw, also, the full employment budget balance for any given budget program as an indication of the restrictive or expansionary impact of that program on overall demand.[246]

---

[244] U.S., Economic Report of the President, 1971, p. 6.

[245] U.S., President, Economic Report of the President, transmitted to Congress January 1962, reprinted in Readings on Money, National Income and Stabilization Policy, edited by Warren L. Smith and Ronald L. Teigen, (Homewood, Ill.: R.D. Irwin, Inc., 1965), p. 271.

[246] Ibid.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

More recently, the National Conference Board has reported that the full employment budget is subject to "serious criticism on theoretical as well as on statistical grounds." According to the Board's 1975 report, continuous balancing of the full employment budget

> was found to eliminate fiscal policy as a discretionary tool for coping either with economic slack or inflation. Moreover, as a statistical measure, the level of full employment surplus (or deficit) was found to be a highly unreliable estimate, particularly during periods of accelerating inflation.[247]

Thus far in his analysis, Arthur Smithies found that budgetary rules do not meet the problem of the total size of the budget in relation to the national economy and, thus, ignore the possibility of a chronic tendency to inflation because the stabilization rules cannot be applied. Furthermore, the long run growth path may be affected by this process. That this is a real possibility, says Smithies, is borne out by wartime experience, when there is an "upper limit to the budget that can be financed without inflation. No Government has ever had the ability to avoid inflationary pressure in a major war,"[248] Though Smithies is firm in his belief that an upper limit is existant, he shied from a definition of its magnitude and rejected Colin Clark's suggestion that inflation always sets in when the budget exceeds 25 percent of national income. Some of the arguments offered in support of an upper limit by Smithies are: (1) modern governments authorize expenditures more willingly than they do taxes, and (2) high expenditures may carry with them tax measures which

---

[247] Michael E. Levy with Delos R. Smith, Juan de Torres, and Vincent Massaro, The Federal Budget, Its Impact on the Economy Fiscal 1975 Edition, (New York: The Conference Board, Inc., 1974), p. 11.

[248] Smithies, p. 450.

[249] Smithies, p. 451, footnote 8.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

may reduce national output, and (3) taxation enters directly into wage bargaining leading to a wage-price spiral upward.

With respect to the budget and economic growth, Smithies recognized that the maintenance of high employment may or may not contribute to economic growth but the avoidance of chronic inflation can further both objectives. As to whether Government expenditure and revenue policies do raise the growth rate of the economy, Smithies says, "This is a question that generates more heat than light, and policy decisions will have to be made in the absence of definitive knowledge."[250]

It is concern with the problem of long run growth that makes Smithies suggest consideration of capital budgeting as distinct from current budgeting. He does not, nevertheless, see the capital budget as feasible or desirable in advanced economies such as the United States. There are difficulties, according to Smithies, with the proper classification of expenditures, the question of military production and construction, and the fact that no classification of expenditures in itself leads to the best division between borrowing and taxation. His main reason, though, for rejecting the capital budget is that it obscures the fact that the "Government's ability to borrow depends on the relation of public to private indebtedness and on the productivity increase in the whole economy rather than on the productivity of Government profits alone".[251]

The United Nations, on the other hand, is more favorably disposed to both a current and a capital budget system.[252] Its report viewed a double budget as desirable to separate Government activities which are concerned with the disbursement of funds from those which are concerned

---

[250] Ibid., p. 458.

[251] Ibid., p. 461.

[252] United Nations, p. 14.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

with the management of assets. The latter should be administered by public undertakings while the former is best left to the administration of departments and agencies. According to the United Nations' report, the use of capital accounts has been a part of the trend toward long range public works and development planning. The separation of current and capital accounts enables the comparison of annual budget results in the Government development program with the long range plan.

Again, according to the United Nations, capital accounts may serve to provide information in those countries who are seeking to expand the volume of assets within the control of the public sector. Still another consideration for the distinction between capital and current accounts is to enable the analysis of the economic effects of receipts and expenditures. For example, one can discern the net change to private income accounts as a result of Government transactions which is significant in analyzing their inflationary or deflationary effect. However, the budget classification will not resolve any choice which arises because of conflicting economic objectives. It may be that additions to real assets will increase deficits just at a time when increased surpluses are needed. The United Nations made a point of emphasizing that, in addition, "there is neither a conceptual nor an institutional link between the capital account and borrowing for the purposes of asset acquisition."[253]

In assessing the budget and the objective of economic growth, Arthur Smithies stated two viewpoints on the subject. One point of view would see rising productivity and output achieved through policies designed to maintain full employment while causing, also, a gradually rising price level. The second and opposite point of view would hold Government

---

[253] Ibid.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

expenditures down and avoid taxation which penalizes private enterprise. Smithies predicts that the first point of view is likely to lead to inflation or suppressed inflation if controls are used and may provide a "relatively smooth transition to socialism." On the other hand, the second point of view is untenable because the budget commitments inevitably make the budget so high that positive policy considerations must be made. Furthermore, it is not reasonable to expect that the "modern private enterprise economy will render its best performance without the stabilizing influence that can be provided by budgetary and monetary policies."[254]

Foundations of French Budget Policies

In France, the theories of budget policy were changing, also. The principle of budget balance had been at the very core of classical public finance. It was deeply rooted there because of the frequently drawn analogy between public and private finances. Modern theories of public finance, however, no longer argued the sanctity of budgetary balance and, in fact, some theories cherished the idea of "systematic" deficit.[255] The new approach still incorporated the idea of budgetary balance but not from the traditional purely financial standpoint. Now, it substituted for the latter the idea of a general economic balance.

According to Maurice Duverger, in the classical theory of budgetary equilibrium, it is not only a deficit which is forbidden, but a surplus as well. With respect to forbidding deficits as explained earlier, the reasons were fear of rising future expenditures for servicing the debt created to finance the deficit and fear of inflation. With respect

[254]Smithies, pp. 463-464. [255]Duverger, Finances,publiques,p.220.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

to forbidding surpluses, it was the fear of increased expenditures in future budgets created because of the prior public savings or surplus budgets.

Modern public finance differs in that it rejects the notion of considering financial problems in an isolated framework. Accounting equilibrium or balance betwen receipts and expenditures of the budget is replaced by the general equilibrium of economic and social life. Financial equilibrium is one element of economic equilibrium. They can contradict one another, say Duverger, in the sense that a temporary financial imbalance may be a way of assuring economic equilibrium. This is the basis of the theory of déficit systématique. This doctrine was developed by Sir William Beveridge on the basis of the theories of John Maynard Keynes.[256]

Deficits, according to Duverger's account of the theory, are a means of assuring an expansion of the economy in a period of unemployment. The idea behind the theory is that the budgetary deficit eliminates the economic deficit (unemployment). This occurs, on the one hand, by the reduction of taxes which encourages consumption expenditures and, hence, business, and, on the other hand, because of the recourse to borrowing, the Government can direct sums, which would have been saved, to productive investment. While the expansion of consumption and investment expenditures eliminate the economic deficit (unemployment), the increased production and increased national revenue leads to increased fiscal receipts. In addition, with the reduction of unemployment so is Government aid and unemployment compensation programs reduced. Finally, increased revenues mean not only higher public reserves but higher private savings available

---

[256] Ibid.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

for private investment, as private income rises. Thus, the original budget deficit adopted to cure the economic deficit tends to disappear naturally as the resources of the State increase while its expenditures diminish. However, warns Duverger, there are strict limits to the policy of systematic deficit. It only works in an economy "temporarily" stagnating, public expenditures must be reduced once full employment is reached, and the initial deficit must not be so large that the purchasing power created by the State exceeds the possibilities of the economy's productive capacities once full employment is reached.[257]

The Budget and National Income Accounting

With this more complex view of the function of Government budgeting, it was not surprising that, in France, it was soon arranged explicitly for the budget to be viewed within the framework of a general equilibrium of economic and social life. This method of thinking may be said to have begun with the introduction of the French national accounts which have existed since 1946 and the economic budgets which took on an official existence in 1952.[258] Since 1952, both the accounts of the nation and the economic budget appear regularly.[259] The National Institute of Statistics (l'Institut national de la Statistique) prepared the accounts of past years and the Service of Economic and Financial Studies (Services des Études économiques and financières) of the Finance Ministry prepared those of the ensuing year and the economic budget of the year to

---

[257] Ibid., pp. 228-232.

[258] Ibid., p. 216; also, for comparison of French and U.S. National Accounts, see M. Yanovsky, Social Accounting Systems, (Chicago: Aldine Publishing Co., 1965), pp. 90-112; 220-222.

[259] Duverger, Finance publiques, pp. 216-217.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

come. These accounts were not only discussed by the Commission of National Accounting but were forwarded to the Economic and Social Council. They were debated in the Council and then, they were presented to Parliament and published.

In 1956, the decree regulating the method of presentation of the budget added another step by linking the State Budget and the National accounts. It did so by requiring two reports to accompany the budget: an economic report and a financial report. Then, the Ordonnance of 1959 simply regrouped the two reports into one.

Article 1 of the Ordonnance provided that the budget must define an economic and financial equilibrium. Article 32 of the same act required that a special financial and economic report accompany the finance bill of the year. This unique report is based on the economic accounts of the Nation and includes the financial expression of the charges and means of the State in harmony with the economic conclusions. In addition, it gives actual past results and offers future perspectives accompanied by several detailed annexes for the information and control of Parliament and, thus, is an essential part of the budget document.[260] Typical of the kind of information offered here is that contained in a release of the Information Service of the Ministry of Economy and Finance entitled, "The Principle Elements of the Economic Budgets for 1971 and 1972. (Forecasts of October 1971)." The release described verbally and quantitatively three factors which would enable France, in 1972, to separate herself from the international slowdown in economic activity. These factors were (1) maintenance of a strong growth in

---

[260] Trotabas with Cotteret, pp. 78-79; Lequéret, p. 35.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

purchasing power, (2) the dynamic growth expected in French exports, and (3) the large increase planned in public equipment.

The position of prominence of the Economic and Financial Report in the French budget law is essentially different from that given the "Nation's Economic Budget" or under its original title, "The Government's Budget and the Nation's Budget" which was first introduced in the United States in the budget for fiscal year 1946, and then transferred to the Economic Report of the President in 1948.[261] Though it was a form of National income accounting based on transactions by major sectors: consumers, business, Government and International served as a framework for the analysis of economic developments with the inclusion of the Governmental budget, it did not include a forecast of the Nation's budget for the future. In addition, there was no formal provision for the review of the "Nation's Economic Budget" within the budgetary process, which has remained true to the present time, with the exception of the review of the present and future States of the economy now required by the Congressional Budget and Impoundment Control Act of 1974.[262]

Nevertheless, the French Ordonnance of 1959 has incorporated a much broader view of budget policy than the United States has, even with the new budget Act. The view begins with its definition of the "loi de finances" as distinguished from the budget which we repeat below.

It is the loi de finances which determines the nature, the amount and the assignment of resources and charges of the State in view of an economic and financial equilibrium which it defines. The budget, within

---

[261] Burkhead, p. 219.

[262] See below, Chap. 14.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

this framework, consists of the body of accounts which describe for a civil year all the resources and all the permanent charges of the State.[263] Nonetheless, this more restrictive character of the budget, claimed Colette Cordebas, reflects a certain disillusionment with the possibility of integrating the budget into National accounting."[264]

---

[263] Ordonnance, Nº 59-2, articles 1 and 16, see discussion above (in Chapter 1).

[264] Colette Cordebas, "le budget, la Trésorie, la dette publique," Revue Économie Politique, vol. 71, no. 4-5, (Juil-Oct): 471-500.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

CHAPTER 5

THEORIES CONCERNING THE BUDGET BALANCE OR IMBALANCE AND ITS FINANCING

Overview of Chapter 5

Both the French and U.S. budget specialists have been engaged, sporadically, with the implications of budget imbalances. In France, the approach from the start, à la Jacques Rueff, was to separate the functions of Government as an entrepreneur from those functions which were indicative of Government as an intermediary. In this framework, specific decisions could be made with respect to the appropriateness of budget imbalances and the method of their financing. In practice, the rule led to several definitions on the French budget imbalance or "deficit" which are explored below.

In the United States, though the spending-lending distinction had several proponents, its practical application proved short-lived. Greater attention was focused first in the United States towards the most meaningful total budget concept for evaluating the economic impact of the budget. Frequently, since that time, the attention has shifted towards consideration of the economic impact of the budget imbalance alone. Added to this restrictive viewpoint in the United States, has been the cursory treatment or, sometimes, outright omission of matters of budget finance. The closing pages of the chapter juxtapose the French and U.S. approaches to the financing of budget imbalances.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Theories About Tax versus Loan-Financed Expenditures

The new approach to the budget which was first expressed in France by the Decree of 1956 and, then, in the Ordonnance of 1959 evolved, in part from the well known Commission Report delivered by Jacques S. Rueff, Inspector General of France.[265] The relevant part of the Rueff Commission Report is contained in Section V which is devoted to a discussion of the concept of the impasse and French inflation, particularly as it occurred in the period 1958-1959. Impasse is explained as the difference between total unconditional engagements of the Treasury, whether current expenses or investment programs and unconditional receipts, whether taxes or reimbursement of old loans. The idea of the impasse as it was originally conceived in 1952, was to keep the difference between certain expenses and receipts within the limited amount which one could reasonably expect savings to attain. Thus, if the difference was not contained, it was hoped that the unconditional engagements of the Treasury would be revised by either reducing public expenditures or raising fiscal receipts. Instead, the problem of closing the impasse was resolved by financing directly and automatically through advances of the Bank of France. These advances were rediscounted by the Bank, assuring the financing outside the impasse of the unconditional engagements of the Treasury and an additional source of inflation.

According to the Rueff Report, the system of the impasse lead to just the opposite of its purpose, because it appeared that one expected to have unconditional charges financed by loans.

---

[265] France, Ministère des Finances, "Rapport sur la situation financière présenté à M. des finances et des Affairs économiques en exécution de sa decision du 30 sept. 1958," by Jacques Rueff, Statistiques et Études financières, no.121, 11e ann. (janv. 1959).

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

In Section IX, Rueff offered some concrete suggestions for reform. he emphasized at the beginning that the essential thing to do is to reintroduce the equilibrium of French finances. To achieve this end, the budget should be presented in two separate sections. One would be called the Budget of Public Expenditures and Receipts, "Budget des dépenses et des recettes publiques," and the second section would be called Budget of Profitable Loans, "Budget des prêts rentables." All current State expenses including nonprofitable investments, taxes and diverse revenues would appear in the first section. If Governmental revenues exceeded the public expenditures as described above, than either expenditures must be reduced or taxes increased.

In the second section, loan expenditures for profitable investments authorized by the Treasury are to be listed. Here, the Treasury would be an intermediary operating almost as a bank. These profitable loans would include the loans of nationalized and assimilated enterprises and the "accounts of advance and commerce."[266] Rueff suggested direct financing by the Treasury of these profitable loans from savings without recourse to the rediscount practices of financing through the Bank of France and, by his reasoning, without inflation. Offsetting this point of view, of course, is the fact that Rueff ignored the state of the economy and the possibility of any active compensatory policy by the Government. Rueff distinguished, also, between one section of the budget which must be balanced and, another, which could and would be in deficit financed by borrowings. The separation, obviously, was not in terms of a current and capital budget but, simply, in terms of a tax-financed versus a loan-financed budget.

---

[266] Ibid., p. 22.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

In the United States, a case was made for a separate Federal lending account in 1965 by George F. Break in a monograph entitled, Federal Lending and Economic Stability. Break argued that the budget would be improved by setting up a Federal lending account. The primary reason for it he claimed, is the fact that the economic effects of loan programs differ from those of expenditure programs. "A clear picture of Federal fiscal operations cannot be obtained as long as lending remains enmeshed in the administrative and cash budgets (and excluded from the National income budget).[267]

In 1967, the President's Budget Commission recommended, also, that the Federal government's financial plan incorporate individually, receipts, expenditures and direct lending activity proposed for the coming year in such a way that it would be "divided between a receipt-expenditure account (excluding net lending), and a loan account.[268]

Finally, in fiscal year 1969, the formalized separation of spending and lending was introduced with the unified budget document. this distinction, however, lasted only through fiscal year of 1973. The receipts-expenditures section of the budget showed both a balance on the expenditure account and a balance on the lending account. Expenditures were reported net of lending transactions while outlays were the sum of expenditures plus net lending. According to Davie and Duncombe. The presentation of the loan account is one of the major innovations of the new budget format, and it records a Federal Government Activity as a financial intermediary.[269]

---

[267] George F. Break, Federal Lending and Economic Stability, (Wash., D.C.: The Brookings Institution, 1965), p. 40.

[268] U.S. President, Report of the President's Commission on Budget Concepts, (Wash. D.C.: Gov't. Printing Office, Oct. 1967), p. 5.

[269] Bruce F. Davie and Bruce F. Duncombe, Modern Political Arithmetic, The Federal Budget and the Public Sector in National Economic Accounts, (New York: Holt, Rinehard and Winston, Inc., 1970), p. 70.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

The French "Deficit" Concepts

In France, the idea of a tax-financed and a loan-financed budget, though modified from Rueff's original thought, was first introduced in 1960. It corresponded to a more orthodox view of the impasse or deficit. It classed expenditures according to whether they were definite or provisional, and called for the first category to be balanced by budgetary receipts, and the second, to be covered by the resources of the Treasury. Definite expenditures, as the Classicists would explain, are not reimbursable and, therefore, should be financed from budgetary receipts. In the event they are not, their balance constitutes what it referred to as the initial budgetary deficit or déficit budgétaire. Provisional or temporary expenditures, on the other hand, consist of reimbursable operations and their sums will be recovered either in the short or the long run. In the meantime, they are financed either by Treasury bills, long term public borrowing or from the planned or unplanned variations in collections or budgetary receipts and spending of budgetary crédits.[270]

No addition of the balances of operations of a definite and of a temporary nature constitutes a secondary budgetary deficit, le découvert budgétaire, a more pleasing term than that of impasse according to several economists including Valéry Giscard d'Éstaing.[271] However, it must be recognized that the real impasse will differ from the forecast one because of changes in economic conditions which may change the value of receipts collected as well as the rhythm of expenditures.

As for the impasse revealing the exact financial situation of the

---

[270] Duverger, Finances publiques, pp. 226-227.

[271] Jean-Marie Cotteret et Claude Émeri, Le Budget de l'État, Que sais-je?, Le Point des connaissances actuelles No. 1484, (Paris: Presses Universitaires de France, 1972), p. 37.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

State, there are those who suggest the possibility that the Government will be tempted by accounting manipulations to move certain definite expenditures into the provisional category, below the line in financial terms. This would tend to diminish the budgetary deficit and conceal the true amount of definite expenditures of the State.[272] In any event, the financial situation of the State depends on more than the découvert of the budget resulting from the execution of the budget. It depends as well on the balance of the so-called accounts of execution, (differences between recorded and actual accounts) the balance of account 21, (profits and losses from management of the Public Debt), and from 1962 to 1967, the balances of special operations concerning Algeria.

Once these balances are included, a third deficit total is reached known as the le découvert général du Trésor. This deficit concept, however, is not the final one; it does not reveal the total charges of the Treasury. To arrive at that final total, we must still add to the general deficit, the retirement of the medium and long term debt and the variation in the volume of Treasury bills held by international institutions.

The U.S. "Deficit" Concepts

Thus, one view of the French system distinguishes between at least four different notions of deficit. Nevertheless, the system has retained for better than ten years, a standardized budget document. In the United States, on the other hand, vacillation over the relevant deficit has been accompanied, also, by an assortment of budget documents.

---

[272] Duverger, Finances publiques, p. 226/

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

These alternative budget documents, of course, have been a function of the multi-purposes of any nation's budget and their changing priorities over time. Our oldest legal measure of the budget, the "administrative" budget, incorporated receipts and expenditures of the Federal funds, funds owned by the Government, offset receipts against expenditures for public enterprise and intragovernmental funds and excluded the trust funds completely. Though, for many years, "it was often the focus of attention as the principal financial plan for the Government,"[273] it did not include all finances requiring annual action nor all expenditures subject to legislative and administrative control.

The rising importance of the trust funds turned attention to a new statement named the "consolidated cash" budget. It combined Federal and trust funds but still followed the netting procedures of the former budget. In addition. it was basically on a checks-paid basis instead of the checks-issued basis used in the "administrative" budget.[274]

Finally, a third budget document attempted to explain the relationship of the budget to the Federal sector of the national income accounts by stating the budget estimates on a national income basis. The outstanding differences between this budget and the other two are timing and lending distinctions. The "Federal sector of the national income accounts" excludes all lending transactions whereas both the "administrative" and the "consolidated cash" budget did include net lending for the funds covered. In addition, only the "national income accounts" budget, is on an accrual basis. This means that "receipts are counted

---

[273] U.S. Bureau of Budget, The Budget of the United States Government, Fiscal Year 1969, p. 465.

[274] Ibid., pp. 464-472.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

when the income is earned or when the transaction giving rise to the receipt occurs. Accrued expenditures record outlays when the production or work takes place rather than when the payment is made."[275] These are not the only budget documents developed over the period under study but they were the major ones considered by the President's Commission on Budget Concepts. The objective of this commission was "to recommend an approach to budgetary presentation which will advance both public and congressional understanding of this vital document."[276] As the Commission indicated, this understanding had been hampered by competing concepts of budget totals, inappropriate accounting treatment of certain items, insufficient availability of budget information, and the lack of understanding on the part of Congress and the public of the budget program.

Though the Commission recognized the multi-purpose of the budget, it firmly endorsed and presented a unified concept of the budget, "-with complementary components-which will put an end to competing measures."[277] In their conception, the total budget surplus or deficit should be composed of (1) the difference between Government receipts and expenditures other than loans, plus (2) the difference between loan disbursements less loan repayments or net lending. In this new presentation, they saw budget totals not only constituting a unified system but being able to produce "in simple form" the figures needed for :

(1) an analysis of the economic impact of the budget, i.e., excluding loans, and

---

[275] Ibid., p. 479.

[276] U.S. Report of the President's Commission on Budget Concepts, p. 14.

[277] Ibid., p. 3.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

(2) the aggregate figures, i.e., including net lending:
(a) as a summary of agency and program amounts used by the Congress and the Executive in deciding the appropriate allocation of resources to be used by the Government, and

(b) to provide an accurate measurement of the scope of overall Government financial activity.[278]

How does this conception of the budgetary deficit and the budgetary totals differ from the various concepts introduced in the French scheme? To begin with, the American budgetary deficit is more closely related to the impasse or the découvert budgétaire than any of the others. However, there are large differences particularly in content and timing of the French budget as compared to that of the United States which reduce this relationship substantially. For example, the French "social budget" which incorporates its social security system, is completely outside the loi de finances though it appears as an annex to it.

Secondly, the French budget is firmly grounded on the tradition of crédits de paiements or the authorization of payment of actual expenditures for the ensuing fiscal year. The United States budget is however, essentially based on a system of appropriations or authorizations to incur expenditures for the ensuing fiscal year and actual payments will differ by those sums appropriated in the past and those appropriated to be applied in some later fiscal year. This fundamental difference is further amplified in Chapter 9.

Finally, the U.S. conception of budget deficits in recent times differs from the French in its theoretical origins. Clearly, in the Rueff model above, unless special rules are followed, Governmental deficits are associated with the mismanagement of budgetary funds and

[278] Ibid.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

inflation. On the other hand, in the U.S. Economic Report of the President in 1963 the CEA associated our governmental deficits with compensatory policies designed to keep the economy at high levels of capacity utilization and employment. It placed deficits and surpluses within the framework of the whole economy by suggesting that if one sector of the economy runs a deficit then it must be that another sector runs a surplus. This is because "for the economy as a whole expenditures on final output in any period must necessarily add up to the value of total gross product or income."[279] By definition, "the sum of all sectoral deficits must be identical with the sum of all surpluses."

In this way, one is led to view the position of each sector of the economy: consumer, business, State and local Governments, foreign trade, and the Federal Government and to study how each one's position is related to the others. The report, studying fifteen years from 1947 to 1961, indicated that, characteristically, the Federal Government and business sectors together show a deficit which is offset by a surplus in the remaining sectors. This condition occurred, according to the CEA study, twelve times in the fifteen years under review. In years of recession, the business sector exhibited surpluses or small deficits, while in years of prosperity, it usually achieved a large deficit. A deficit in the business sector occurs when expenditures for fixed and inventory investment exceed retained earnings and depreciation allowances. In prosperous years, it occurs because business borrows large amounts of funds in the capital market for investment purposes, hence, using the surpluses of other sectors, the business sector accounts for its own deficit.

---

[279] U.S. Economic Report of the President, 1963, p. 74.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

On the other hand, the Federal budget showed a reverse pattern. It moved towards a surplus as the economy grew and toward a deficit as the economy contracted. These movements, according to the study, were mainly the result of the automatic fiscal stabilizers. When unemployment was low, surpluses prevailed and, when it was high, deficits occurred. Thus, it was clear that the deficits and surpluses of the business and Federal Government sectors were related. In conclusion, the CEA declared that the business sector was the major determinant of economic activity. As the business sector cannot be expected to run large deficits simply to maintain high economic activity, claimed the report, it is up to the Federal Government to pursue active policies designed to keep the economy at high levels of capacity utilization and employment.

Budget Imbalance and Economic Policy Goals

An important question to raise at this point in the study is: why are observers in both nations concerned with the quantity and quality of the deficit? Three distinct reasons are offered in the remaining pages of this chapter. The first, the oldest concern, returns to the predilection of individuals for the notion of a "balanced budget," described as a "classical" notion earlier. As Herbert Stein, former chairman of the Council of Economic Advisers, has suggested, people will forget the rule only when unemployment is high as, "One touch of recession makes the whole world Keynesian."[280]

The second, the modern concern, relates to the deficit as an

---

[280] Herbert Stein, "What's in a Deficit?", New York Times, (14 January 1975): 25.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

indicator of the effects of fiscal policy for stabilization and other purposes which is discussed below. The third, an emerging concern, relates to the need for specification of the financing techniques. These matters are introduced at the end of this chapter and further developed in Chapter 13.

As an example of the second reason for analyzing budget imbalances, Wilfred Lewis, Jr., for the Brookings Institution, used a concept called the implicit Federal surplus, to appraise Federal fiscal policy during four postwar recessions.[281] He found that "Compared to the automatic stabilizers, deliberate actions to counter recessions generally have been less helpful."[282] He ascribed the failure of discretionary policy to the existence of constraints such as long range goals and prior commitments, uncertainty in the short run as to the actual state of the economy and the usual concern over balanced budgets.

Arthur Smithies, in a similar vein of thought, has commented, "This leads me, and has led many others, to the conclusion that short-run stability should be achieved as far as possible through 'built-in flexibility' of the budget and through monetary measures that can be readily reversed." He suggested an automatic reduction in the income tax or its automatic elimination according to prescribed signs of recession or recovery and subject to Presidential veto. Smithies viewed these "automatic reversible devices" as "the most effective way to avoid the radical political consequences of a flexible fiscal policy, and thus

---

[281] Wilfred Lewis, Jr., Federal Fiscal Policy in Postwar Recessions, (Washington, D.C.,: The Brookings Institution. 1962).

[282] Ibid., and "A Summary", pp. 12-24 of study reprinted in Readings in Money, National Income and Stabilization Policy. pp. 284-291, sec. p., 287.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

to allay the fears of those who cling to the balanced budget rule on rational rather than superstitious grounds."[283]

Twenty years later, the preference for tax policy adjustments is still expressed. In Setting National Priorities, the 1976 Budget, a concerned study is made of the "controllability" of budget expenditures and their relationship to short and long term fiscal flexibility. The authors express the opinion that,

> GEARING FEDERAL OUTLAYS primarily to long-term program considerations and utilizing tax surcharges and rebates for short-term fiscal policy is a process that would permit the efficient provision of Government services while keeping fiscal policy sufficiently flexible to meet the short-term needs of balancing the economy. The limited controllability of Federal expenditures thus does not create any insuperable roadblocks to the simultaneous pursuit of national priority rearrangement and short-run fiscal stability.[284]

Nevertheless, there is an inherent danger in persistent concentration on the budget balance whether on an actual or full employment basis as the crucial magnitude. Francis M. Bator has commented that, "no deficit, however measured, is an indicator of the expansionary or contractionary effect of the budget on total demand."[285] He suggested that if the notion of a full employment budget surplus of zero was adopted, it could develop into a rule as rigid and arbitrary as any other rule. If private spending propensities are low and Government spending cannot be

---

[283] Smithies, pp. 296-297.

[284] Barry M. Blechman, Edward M. Gramlich and Robert W. Hartman, Setting National Priorities, The 1976 Budget, (Washington, D.C.: The Brookings Institution, 1975), p. 210. See additional discussion below in Chapter 12.

[285] Francis M. Bator, "Budgetary Reform: Notes on Principles and Strategy," Review of Economics and Statistics, vol. XLV (May 1963): reprinted in Readings in Money, National Income, and Stabilization Policy, Edited by Warren L. Smith and Ronald L. Teigen, p. 329.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

exercised fast enough, the rule shifts the burden of maintaining private demand onto monetary policy. Monetary policy could fail under certain conditions and, even if it did not, "we would be making our choices between investment and consumption blindly, as it were, uninfluenced by the relative desirability and the terms of trade between consumption now versus growth for consumption later." Furthermore, according to Bator, the arbitrary rule causes us to lose an "important degree of freedom" with respect to resource allocation and income distribution goals. In addition. the adoption of a zero full employment budget surplus rule is not necessarily deflationary. When private and Government spending is high, it could lead to "inflation and/or tight-money-and-low-investment".[286]

Nevertheless, at least one study has inquired into "the possibility of using the budget balance as a proxy for more complicated estimates of the effects of the budget."[287] The study of fiscal policy in seven countries incorporated as an indicator of the expansionary or the contractionary power of the budget, the change of the general Government budget balance divided by the gross national product of the previous year rather than the absolute size or sign of the balance. This was compared to the total effects of the general Government budget including public enterprise investment,[288] also divided by GNP of the previous year. Among the countries studied in this way from 1955 to 1965 were the United States and France. It was found that the budget balance

---

[286] Ibid., p. 330.

[287] Bent Hansen, assisted by W.W. Snyder, Fiscal Policy in Seven Countries 1955-1965, Belgium, France, Germany, Italy, Sweden, United Kingdom and United States. (Organization for Cooperation and Development, 1969), p. 74.

[288] Ibid., pp. 59, 74-76.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

systematically underestimated the budget effects by about three times for the United States. If one argues that "the effects of the budget are equal to the change in the budget balance plus some unknown multiplier effect there would be little to object."[289] Then, it seems, the change in the budget balance could have served as a good proxy over the period.

The use of the change in the budget balance as a proxy for total effects of the general Government budget is not quite as successful for France or for the other countries: Germany, Italy, Sweden and the United Kingdom, though it would have been relatively successful for Belgium. Nevertheless, Bent Hansen concluded that we should not rely on the changes of the budget balance as a proxy for the estimated budget effects. Even if the estimated budget effects "do actually describe the effect of the budget correctly, the budget balance will lead us to adopt a very inadequate fiscal policy."[290] He suggested several reasons, the strongest of which are (1) the discretionary measures which would necessarily disrupt any previously existing relationship between the change in the budget balance and the total effects; and (2) even if all budget changes were automatic, the stability of the relationship would depend on the nature of the exogeneous disturbances.[291]

On the other hand, William A. Niskanen, has built a case on the basis of American experience since 1869 for a "general relationship between the rate of increase in Federal spending and the proportionate size of the Federal deficit.[292] He stressed that this outcome is interesting

---

[289] Ibid., P. 79. [290] Ibid., p. 81. [291] Ibid.

[292] William A. Niskanen, Structural Reform of the Federal Budget Process, Domestic Affairs Study No. 12, (Washington, D.C.: American Enterprise Institute for Public Policy Research, 1973), reprinted in

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

because there is no obvious reason why the frequency and proportionate size of the deficit should have any long-run effect on Government spending. He concluded that "Federal spending appears to increase most rapidly when incremental spending is financed by deficits, and the rate of increase appears to be positively related to the proportionate size of the deficit."[293] When the Federal budget is balanced, says Niskanen, Federal spending appears to increase at about the same rate as national output. A fiscal policy, encouraging deficits, therefore, undermines the allocation function which requires that extra dollars of spending be financed by an extra tax dollar. Thus, it appears that the problem in viewing any deficit or surplus presented depends on one's point of view. Is the objective the efficient allocation of resources within the economy between the Federal and non-Federal sectors, or the stabilization of the economy in the sense of full employment without inflation? Niskanen claimed that these two goals cannot be accomplished by the present Federal budget process at one and the same time. This is because of the fundamental conflict between how the marginal dollar of Federal spending should be financed in each case.

Niskanen explained that when marginal dollars of spending are financed from taxes, we satisfy the allocative function but do not succeed in stabilizing the economy to compensate for its over or under exhilaration. On the other hand, if extra spending is financed by borrowing or money creation, the stabilization goal can be achieved, but the individual tends to underestimate the costs to him of the additional governmental

Improving Congressional Control of the Budget, pp. 465-524, Hearings before the Subcommittee on Budgeting, Management and Expenditures of the U.S. Senate Committee on Government Operations, Part 2 (1, 7, and 9 May 1973), Washington, D.C.: Government Printing Office), p. 478.

[293]Ibid., pp. 478-479.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

spending for which he is not presently paying. Thus, this kind of Federal spending financed by a deficit generates an "excess demand" for that spending which accelerates its rate of growth and increases the size of the deficit.

Fortunately, Niskanen resolved the problem by suggesting a "marginal balanced budget policy." Under such a policy, "the total Federal budget could have whatever planned surplus or deficit was believed appropiate given expected economic conditions but any approved change in Federal spending above or below the level consistent with the desired fiscal effect would be balanced by an approved change in tax rates to generate an equal change in expected tax revenues."[294] Because this approach establishes a dollar for dollar relation between marginal Federal spending above the target level and expected tax revenues, it is felt both the allocation and stabilization functions of fiscal policy would be better served.

A last word in defense of budget imbalances for stabilization purposes by Bator suggested that part of the problem could be cured by educating the public and Congress. The budget message, according to his advice, should provide the rationale for the projected surplus or deficit. He argued the budget should include the "presentation of the results of trial-run 'nation's economic' (NEB) exercise, which would show the expected pattern of net receipts and purchases of households, businesses, the rest of the world, State and local Governments and the Federal Government in relation to the target level of 'desired' output."[295] The most serious objections to this procedure, according to Bator, would be its tendency to stimulate controversy over the reliability of Government's

[294] Ibid., p. 483.

[295] Bator, p. 331.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

forecasting and estimate consistency and the attendant accusations of dictatorial tendencies because of the ability of government to predict the spending behavior of the major components of the targeted total output. Nevertheless, claimed Bator, the adoption of the nation's economic budget procedure is a way of making inroads "on the fixation on deficits and spending and taxes as evil in themselves.[296]

Bator's presentation of the one way of overcoming the private sector's reluctance to live with deficit budgets neglects an important aspect of the problem recently treated by Herbert Geyer in an article entitled, "On the Variability of Asset Preferences."[297] According to Geyer, the foundation of modern stabilization policy has been laid, unfortunately, by static frameworks in macroeconomic analyses. The observation is true in spite of the fact that John Maynard Keynes' theories did endorse, in a central position, the role of expectations as an explanation of decisions over assets.[298] It is claimed in Geyer's analysis that fiscal and monetary policies aimed at stabilizing economic processes cannot afford to neglect the variability of expectations. Unfortunately, Geyer remarks, most formulations of fiscal policy rules for budgeting, as Bator's, rest on considerations of aggregate demand for production alone and ignore the fact that budget financing affects aggregate demand and supply of assets. The major thrust of the analysis is, therefore, that financial considerations cannot be put aside if comprehensive financial planning is to be undertaken. Although there may be no change in

---

[296] Ibid.

[297] Herbert Geyer, "On the Variability of Asset Preferences," Finanzarchiv Band 34 Heft 3 (Tübingen: 1976, J.C. Mohr (Paul Siebeck): 389-404.

[298] Ibid., p. 389.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

expectation structures when deficit financing is small, there may be important changes when larger financing adjustments are involved.

Before turning to the subject of budget financing, the third reason offered here for the frequent examination of deficits in the literature, a comparison between modern and classical views with respect to borrowing is made.

Modern vs. Classical Views on Government Budget Finance

Essentially, the method of financing a budget deficit or surplus must rest on the initial definitions of outlays and receipts that determined that balance. If certain taxes or expenditures, loan reimbursements or disbursements have not been previously included, they will, obviously, form at least part of the means of financing. Beginning, however, from the classical rule that the budget should be comprehensive and universal, one narrows the techniques available. In the classical approach, the only 'normal' way of covering public expenses is with tax revenues. Loan financing is only to be used in exceptional circumstances such as a result of war.[299] The propositions of the classical doctrine with respect to debt and deficits have been summarized by Jesse Burkhead as follows:

> (1) Government loan finance withdraws funds from productive private employment. . . . .
>
> (2) Deficits are less painful than current taxes. Unbalanced budgets therefore expand governmental activity and invite irresponsible governmental action. . . .
>
> (3) Government borrowing makes future financing more difficult by increasing the proportion of the budget which must go for fixed charges and by increasing the amount of taxes which must be paid to finance the transfer of interest on the debt. . . .

[299] Duverger, Finances publiques, p. 140.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

(4) Loan finance is costly; public outlays financed in this way must be paid for twice, one in meeting interest charges and once in amortizing the debt. . . .

(5) Unbalanced budgets lead to currency deterioration.

(6) Balanced budgets provide a guide for the transfer of resources from the private to the public sector.[300]

Burkhead assesses the current validity of these propositions and concludes that (2) is significant to the extent that government officials and legislators are irresponsible, and (3) is important in those cases where policy decisions are limited by constitutional or economic factors. "Economic burdens will obtain only where the additional taxes levied to finance the interest payments discourage economic activity more than the receipts of interest encourage it."[301] (5) has validity as accumulated deficits may aggravate an existing inflation through effects on the money supply if not offset by the monetary authority. (6) is important, also, and "at the basis of the practical nature of the problem." In fact, only propositions (1) and (4) are rejected as possessing "little validity."[302]

Richard Musgrave has described the modern approach to budget financing in terms of the inevitable changes in the claim structure of the economy.[303] This effect is the by-product of unbalanced budgets and must be studied to learn the resulting effects on private consumption and investment and, hence, on national income. This approach is needed in the modern discussion of budget financing because, differing from the classic view, we want intentionally to affect aggregate demand in ways which will stabilize the economy.

---

[300] Burkhead, pp. 441-443.

[301] Ibid., p. 442.

[302] Ibid., p. 443.

[303] Musgrave, pp. 526-535.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

To begin with, Musgrave distinguishes between fiscal and liquidity policy. Fiscal policy involves expenditures and/or tax action which leave the structure of claims unchanged while liquidity policy does change the structure of claims. A further refinement of liquidity policy reveals that it may involve changes in the supply of money and/or changes in debt. As Musgrave notes, it may be impossible to ever have a purely fiscal policy. Therefore, by default, there must always be some effect on the structure of claims.

A second distinction is drawn between fiscal and liquidity policies in terms of income and wealth effects. Here again, it is recognized that both effects may result from either type of policy. Finally, the preliminary conclusions of Musgrave's analysis of a 100 percent reserve system reveal that the role of wealth and claim effects is important for the long run aspects of stabilization policy. In particular, "Changes in the structure of claims that result from current policies of deficit or surplus persist in the future, even after the current deficit or surplus is discontinued. Such changes take time to accumulate, and the resulting wealth effect gains in strength as the adjustment proceeds. Over time, it may become an important factor in determining the required rate of deficit or surplus." Fractional reserves, as indicated by Musgrave, "complicate the problem, but the essential principle remains unchanged." However, fractional reserve banking does emphasize the need to consider both aspects of liquidity policy together. It adds, also, an important factor: "The liquidity preference or preferred-asset ratio of the banker occupies a strategic position in the picture." In fact, an economy on a fractional-reserve basis, claims Musgrave, "may be said to be as volatile, especially in the downward direction, as the liquidity

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

preference of its bankers. The risk of destabilizing changes in the liquidity preference of bankers is the prime argument in favor of 100 percent reserve money." Statements such as this one, make Herbert Geyer's argument above even more cogent.

In addition, modern public finance draws attention to many other aspects of individual consumer behavior not clearly discussed in the classical doctrine. Though both the modern and the classical approach to borrowing generally grant that it is private investment rather than private consumption which will be reduced[304] with the resource transfer occasioned by the borrowing, the classical approach does not explicitly state the connection between this fact and slowed economic growth. Nor does the classical approach concern itself with the possible differential effects of varying maturity dates of borrowings on consumption, relative rates of growth on different industries, risk-taking, balance of payments and the supply of labor. In the modern textbook discussion on the subject of Government borrowing by Carl S. Shoup, all of these factors are considered as affected. It is with this knowledge that the modern approach says, that depending on stabilization objectives, the proper mix of debt and money financing can be chosen.

The modern approach to budget financing as exemplified in the French system has rejected, also, the simple classical model. It is recognized that debt may be incurred for more than one reason and it may be justified on several grounds. For example, Louis Trotabas with J.M. Cotteret draw a fundamental distinction between public debt incurred for monetary purposes and the debt incurred for financial purposes.[305]

---

[304]Carl S. Shoup, Public Finance, 2nd printing 1970 (Chicago, Aldine Publishing Co., 1969): p. 442.

[305]Trotabas with Cotteret, pp. 253-254.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

The first kind of debt occurs when the Treasury must meet its immediate needs while the second is incurred in response to the necessity of balancing the budget. The debt incurred for financial purposes may be justified for several reasons. Among those mentioned are: (1) investment debt will yield future returns, (2) borrowing to finance subsidies, assistance and so forth, may achieve worthwhile public objectives, and (3) the timely replacement of debt issues is an important stabilization tool.[306]

Not only do the French reject the classical doctrine on these grounds, but they reject the idea of a single financial equilibrium. The Rueff report was a culmination of this thinking.[307] Modern French financiers saw, at least, two other equilibriums: the equilibrium of the demand and supply of money capital, and the equilibrium of the entry and exit of foreign monies.[308] Even the Report of the Finance Committee of the National Assembly on the first budget presented in the new form, recognized the changed viewpoint at the same time that it congratulated that budget for its respect of the classical rules of annuality, unity and universality. The Committee commented that the new presentation permitted one to appreciate, separately, the activities of the State as both a "spender" and a "banker" because, now, budgetary expenditures are divided into those of a definite versus those of a temporary character.[309]

Henceforth, the new role of the French Government involved assuring the proper allocation of resources along with maintaining monetary

---

[306] Ibid. [307] See above, pp. 118-119.

[308] Duverger, Finances publiques, p. 178.

[309] France Parlement, Commission des Finances de l'Assemblée Nationale, Rapport de la Commission des Finances de l'Assemblée Nationale sur le project de la de finances pour 1960. Documents de l'Assemblée Nationale (20 avril 1961) reprinted in Finances publiques: Documents, pp. 19-22.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

and balance of payments equilibrium also. These several problems, alone, would necessitate a careful survey of the means of financing the budget imbalance even if it were not true that other macroeconomic goals for a Nation have been suggested. Goals, such as improving the distribution of income or achieving some given rate of economic growth through encouraging investment might well entail different means of financing than the other goals. Given the described multiplicity of problems, one hesitates to suggest that they are further compounded by the budgetary process, itself, which takes time. The initial budgetary balance just as the initial total budget is simply a forecast, therefore, actual financing of the executed budget will differ from the projected means for similar reasons even if the added question of liquidity considerations had not entered into decision-making criteria.

Techniques of Budget Financing

Most modern public finance texts tend to view the means of financing a budget imbalance in terms of whether it reinforces, neutralizes or restrains the primary effect of the budget balance, itself. Thus, modern texts must first stipulate the 'expected' effect on economic activity of a deficit or surplus budget. It has been recent custom to view a deficit budget as one which will have an expansionary effect on economic activity. A typical discussion[310] then, concentrates on methods of financing under given conditions. The Government can borrow funds by issuing debt instruments and selling them, or it can print money to finance the deficit. Alternatively, a surplus may be disposed of either by destroying it (keeping it idle in the public sector), by

[310] Herber, pp. 503-506.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

distributing all or part of it to one or more groups in the economy, or by using it to retire existing Government debt. Thus, five primary methods of budget financing are described and one need only rank them in terms of their secondary effect on economic activity.

In the case of financing the deficit, it is suggested that printing money would be more expansionary than selling debt instruments. But, upon closer inspection, one learns that selling a debt instrument can be as expansionary as printing money if the instrument is sold to the central bank and the process of debt monetization occurs. Thus, special cases clearly expand the array of budget financing techniques which may or may not reinforce the initial questionable assumption. The approach tends to beget a particularly grueling taxonomic sequence, addressed to the question of whether the means of financing abets, neutralizes or hinders the initial effect. On the other hand, if one approaches the subject initially from the point of view that the State is the banker as well as the spender and the borrower, we are, perhaps, closer to the anatomy of the French system than otherwise. The approach of Richard Musgrave in his first public finance text seems closest to this viewpoint in the U.S.[311]

The public treasury in France is a public service under the authority of the Minister of Finance. Unlike the role of the Treasury in the United States, the Treasury in France is responsible for the execution of the budget and, also, it assures the financial services of the local departments, municipalities and public enterprises.

In its function as banker for the Government, the Treasury's agents collect taxes and pay expenses as well as make the execution of

---

[311] Musgrave, pp. 526-535.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

the budget possible when insufficient funds are available. In the latter case, the Treasury can draw upon its current account which is fed by its correspondents, it can issue bills, bons, or it can obtain advances from the Bank of France and, more rarely, directly issue currency. Actually, the means of the Treasury described are not independent of one another because the Treasury can be presented as working in a "closed circuit."[312] In France, there are three categories of monetary availabilities or types of money, each of which corresponds to an adjustment circuit and which are linked together to feed the Treasury. The three monies are: fiduciary money including currency and coins, scriptural money of banks including demand deposits, and scriptural money of the Treasury including deposits to the Treasury, postal orders and checks.[313] On 31 March 1965, for example, the first category, fiduciary money, represented 33.6 percent, the second, bank deposits represented 54.3 percent and, the third, Treasury and postal deposits, represented 12.1 percent of the total money stock.[314]

The linkage between the two scriptural circuits and the fiduciary circuit is assured by the presence in all departments and large cities of a branch of the Bank of France through which the banks and the Treasury transfer funds daily. The linkage between the banking circuit and the circuit of the Treasury is through the required holdings of short-run Treasury bills imposed on the banks.

The current account of the Treasury is fed by the normal receipts of the budget through the services of the general Treasury. The current

---

[312] Devaux, pp. 176-183.

[313] Ibid., p. 170.

[314] Pierre de Vogüé, Finances Publiques, Le Trésor et les fonctions de la trésorie (Paris: Université de Paris, Institute d'Études Politiques, 1965-1966), pp. 263-264.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

account is used, also, to execute expenses, but its sum is affected as well by the obligatory and voluntary deposits of funds by correspondents of the Treasury. The obligatory deposits are the total or a part of the available funds of public enterprises, departments and local communes, post office service, social security funds and the Caisse des Dépôts et Consignations. In addition, the current account of the Treasury is fed by the special accounts and some private institutions in return for privileges accorded to the institution. In order to obtain additional funds, the Treasury can sell short term issues or bons to institutions or the public. These Treasury bills constitute the floating debt of the Treasury as opposed to the long term or consolidated debt.

In France, there are two types of Treasury bills: bons en compte courant and bons sur formule. Up to 1967, banks were obligated to maintain the first type, the current account bills, in their portfolio according to the amount of their deposits, which has been called le plancher or, the floor. The institution of le plancher goes back in France's monetary history to 1948. It substituted, in part, for the practice of "tax and loan accounts" which the American Treasury utilizes and which has never been used in France.[315] The idea is that any American bank fulfilling certain requirements may open a Treasury account to which it automatically carries, during the course of the year, the tax collections or debt repayments due to the Treasury by its depositors. These sums are not, therefore, automatically forwarded to the central bank but remain with the initiating bank until the Treasury calls for all or part of these funds. France has not practiced this system, says Pierre de Vogüé,

[315] Ibid., p. 277.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

principally because the situation of the French Treasury has never been that relaxed that it could permit banks to remain with inactive funds.[316]

Instead, a system of rediscount "ceilings" combined with a "floor" of Treasury bills, began in France in 1948. The rediscount ceiling was instituted because it was feared that banks would engage in excessive credit policies. The ceiling meant that the amount of help that an individual bank could expect from the central bank was placed under a maximum limitation. At the same time, it was recognized that it was pointless to fix a rediscount ceiling if banks were left the possibility of freely turning in the large portfolios of Treasury bills which they had accumulated during the war. It was decided, therefore, that the rediscount ceiling must be accompanied by a floor of Treasury bills whereby each bank had a fixed threshold of Treasury bills below which it was not permitted to move. With the floor and the ceiling as described, the banks were forced to remain prudent in their credit policies.

Nevertheless, if banking deposits grew, the play of the floor was such that banks had to keep 25 percent of the new deposits in Treasury bills. Thus, the floor could be used as a mechanism of contraction of the economy through monetary policy. If the desired goal was to sterilize the supplementary resources gained by the bank's increased purchases of Treasury bills, then the Government could simply reduce its debt to the Bank of France. On the contrary, the Treasury spent the monies received from the sale of Treasury bills through the public budget[317] more frequently than its other alternative for the years 1948 to 1958.

With the passage of time, the technique of the floor progressively lost its significance. While the coéfficient de trésorie or rediscount

---

[316] Ibid. [317] Ibid., p. 279.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

rate, reached 36 percent in 1963, the floor of Treasury bills dropped first to 15 percent and then 10 percent and even lower in 1964.[318] Finally, the custom of the floor disappeared except for certain issues emitted since 1963 whose amount is fixed by the Treasury following its needs and whose rate is determined by conditions in the money market. Unlike the current account Treasury bill, described above, the bons sur formulaes have a fixed rate and, since 1968, have had the additional problem of respecting the "competitive neutrality" of the Treasury so that the money market is not upset by their issuance.[319]

Formerly, the ceiling for Treasury bill issues was fixed by the budget, but now, the finance bill extends the authorization of Treasury bill issues to that amount necessary to cover all the charges of the Treasury. For example, the finance bill of 1971 provided that the Minister of Economy and Finance, in conditions fixed by decree, was authorized to issue either short or long term debt to cover all the Treasury charges including the retirement of the public debt. He was authorized, in addition, to perform any optional operations with respect to the conversion of loans and the consolidation of the short term debt.[320] Thus, practically speaking, the power of bill issuance is in the hands of the Minister of Economy and Finance.

When either one of the above described means, deposits of correspondents or the sale of Treasury bills, fail to cover the charges of the Treasury, it can still turn to the Bank of France for aid. The Bank

---

[318] Duverger, Finances publiques, p. 180.

[319] Trotabas with Cotteret, p. 150.

[320] Cotteret and Émeri, p. 36.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

of France acts as the central bank for the country and it can discount directly any commercial paper left with it or rediscount paper received by other banking institutions. It is this mechanism which comes into play when the bank makes advances to the Government. Of course, the important difference between advances to the Government and those made upon commercial paper is there exists no gold or commercial bill deposited with the bank upon which it can eventually collect. The advance to the Government is, therefore, a form of money creation. The system rests on an agreement or convention between the Minister of Economy and Finance and the Bank and, thus, the Bank has agreed contractually to aid the Treasury. Parliament has approved the agreement as well because the procedure involves the finances of the State.

Two French economists have suggested the above practice reinforces the importance of the Minister of Finance and the Government because equilibrium is determined, finally, by the means which the Government employs to finance the budget. In fact, according to Trotabas and Cotteret, the United States has disguised the importance of the Government's role by its technique of budget financing. In both countries, direct and indirect advances from the central bank can contribute to inflation. However, France has chosen the technique of direct advances while the United States has chosen the one of indirect advances - such as the central bank's purchase of Treasury issues. This approach is not open and straightforward but it avoids undesirable psychological effects. To Trotabas and Cotteret, the recourse to direct advances may be an archaic procedure but the shock which it produces on public opinion can permit more rigorous measures to be accepted than would be otherwise.[321]

---

[321] Trotabas with Cotteret, pp. 83-84.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

CHAPTER 6

PRESENTATION OF THE BUDGET

Overview of Chapter 6

In this chapter, the contents of the French budget of 1971 and the U.S. budget of 1969 are examined and contrasted in terms of major divisions and conceptual differences relating to coverage, netting practices and priority of authorizations as opposed to actual spending. Quantitative evidence on the relative size of expenditure and loan accounts and methods of budget financing is offered. Finally, the more recent U.S. budget document for fiscal year 1977 is introduced and compared to the earlier documents.

Legal Requirements for French Budgetary Presentation

The formal presentation of the budget in France has always been complex. It has known several forms depending primarily on the power which Parliament could or would exercise in budgetary authorization. With the increase in legislative power from the Restoration Period until 1949, the budget format was excessively complicated. There were long debates in Parliament and innumerable exceptions to the rule of budgetary unity. Until 1949, the initial finance bill was presented, essentially, as a detailed description of forecast expenses and receipts of the Government. There was no general perspective revealed by the document. At the end of 1948, however, a reform was introduced: the

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

system of maxima and les lois de developpement.[322] The reform was introduced by the loi de maxima of 21 December 1948. The law specified that the amount of receipts expected and the maximum of crédits for expenses or a "spending ceiling" in each broad category for fiscal year 1949 must be indicated at the very beginning of the finance bill. It stipulated, further, that no legislative or regulatory measure could be introduced during the fiscal year which might lead to a higher maxima without action either for economy at the same time, or new receipts of a corresponding amount.[323]

In summary, the loi de maxima provided that the Parliament vote separately on two budgetary dispositions. The first vote concerned the ceiling of expenditures and the general dispositions of the budget and, the second vote concerned the lois de développment which established the details of crédits for each ministry, for each annexed budget, for the special accounts and for the investment budget. The system lasted until 1956 though it entailed a considerable number of laws in each year and, often, lateness in passage of the necessary crédits for a particular service. With the decree of 1956, the succession of a finance law and, then development law was ended, and the budgetary authorization was separated between a finance bill and a division of crédits by decrees.

---

[322] Paul Amselek, Le Budget de l'État sous la Ve République, (Paris: R. Pichon et R. Durand-Auzias, Bibliothèque de Science Financière No. 5, 1966), p. 141; Trotabas and Cotteret, p. 131; Duverger, Finances publique, p. 270.

[323] Amselek, p. 202, quoted art. 16 of law of 21 dec. 1948, "Au cours de l'exercise 1949, aucune mésure legislative ou reglementaire susceptible d'entrainer, au-déla des maxima prévus, une dépense nouvelle ou d'accroître une dépense déjà existant ne pourra intervenir sans faire l'objet d'une ouverture de crédits préalable au chapitre budgétaire intéressé et sans qu'avant été degagées en contrepartie soit des économies, soit des recettes nouvelles d'un montant correspond."

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

In 1959, the Organic Law pertaining to the finance bill divided the process of budget authorization in much the same fashion as the 1956 decree.[324] The first part of the finance bill should authorize the collection of taxes for the State, for the departments and local communes, and for the public establishments as well as set the ceilings for the broad expenditure categories. The first part, also, should compare the ways and means which assure financial balance by estimating the amounts of resources obtainable from borrowing and from the Treasury along with tax revenues. The second part of the finance bill should establish the global amount of crédits applicable to the services votés, the existing services, and mésures nouvelles, the expenses applicable to new authorizations by title and by ministry. It should be noted here that with the adoption of the Congressional Budget and Impoundment Control Act of 1974, the U.S. Executive Branch must submit, also, an "existing services" budget two months before the total budget submission to Congress, or by November 10th.[325]

In addition to the conditions above for the French finance bill, it is required to authorize, also, the operations of the annexed budgets and the special accounts of the Treasury. In addition, it is to regroup the "autorisations de programme assorties de leur echéancier." These authorizations are for projects which extend over several years rather than the single budgetary year and they are arranged according to their dates of performance. Moreover, the organic law is to distinguish, also, between those dispositions which are annual in character from those which are permanent.

---

[324] Ordonnance N° 59-2.

[325] See below, Chapter 14.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

In article 33 of the 1959 Ordonnance services votés are defined as the minimum sums which the Government deems indispensable in order to secure the execution of public services in the same conditions which have been approved by Parliament in the preceding year.[326] The law is to distinguish, therefore, between permanent resources and charges and ordinary resources and charges. According to articles 3 and 6 of the organic law, the permanent resources include taxes, proceeds from penalties, payments for rendered services, debts, cooperative funds, gifts, profits from nationalized enterprises and revenues from public property and financial participations as well as reimbursements of loans and advances and diverse proceeds. Permanent charges, on the other hand, are simply ordinary expenses, capital expenses and loans and advances. It is the authorization of the resources and the payments of charges mentioned above which is annual.

Contents of the French loi de finances (1971)

In figure 1 on the next page, the difference between the loi de finances and the budget can be distinguished easily. The French loi de finances is the entire document presented including the general budget (1), the annexed budgets (3), and the special accounts of the Treasury (2) and (4). The French budget, on the other hand, refers to the general budget (1) only.

In the United States, with the advent of the unified budget in fiscal year 1969, the entire document may be viewed, also, as the loi de finances. In the U.S. document there is a distinction between the general

[326] Deruel, p. 16, "Les services votés représentent le minimum de dotations que le Gouvernement juge indispensable pour poursuivre l'exécution des services publics dons les conditions qui ont été approuvées l'année précédente par le Parlement."

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

FIGURE 1

THE ACCOUNTS OF THE BUDGET OF THE STATE: INITIAL FINANCE BILL

	Resources	Ceiling of Charges
A) Operations of a final nature		
1. General Budget:		
Ordinary civilian expenditures		
Capital " " " "		
War damages		
Ordinary military expenditures		
Capital " " " "		
Taxes and monopolies		
Other resources		
2. Special Accounts of the Treasury (accounts of special assignment):		
Ordinary civilian expenditures		
Capital " " " "		
Military expenditures.		
Total (General Budget and Accounts of Special Assignment).		
3. Annexed Budgets:		
National Printing Office		
Legion of Honor		
Order of the Liberation		
Currency and Medals.		
Post Office, Telephone & Telegraph . . .		
Social agricultural tax-payments		
Gasoline services (military)		
Ammunitition services (military)		
Total (Annexed Budgets)		
TOTAL (A)		
Surplus or Deficit of List (A) . .	Or	
B) Operations of a temporary nature		
4. Special Accounts of the Treasury:		
Accounts of special assignment		
Loan accounts:		
Rent controlled housing (H.L.M.) . . .		
Funds of Economic & Social Development (F.D.E.S.)		
Loans of Title VIII		
Other loans		

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

FIGURE 1-Continued

	Resources	Ceiling of Charges
Total (Loan Accounts)		
Accounts of advances		
Accounts of commerce (net charges) . .		
Accounts of monetary operations (net charges)		
Accounts of settlement with foreign governments (net charges).	_____	_____
TOTAL (B)	_____	_____
Surplus or Deficit of List (B)	Or	
NET SURPLUS OR DEFICIT OF THE TREASURY	_____Or_____	

SOURCE: Adapted from Jean-Marie Cotteret and Claude Émeri, Le Budget de l'état. "Que sais-je?" Le Point des connaissances actuelles N° 1484 (Paris: Presses Universitaires de France, 1972), pp. 35-36, French Finance Bill for 1971.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

budget and the annexed budgets but there are no special accounts of the Treasury. In their place, we include "special analyses" of particular parts of the budget document such as information on the financing and operation of public enterprise funds and trust funds or data on civilian employment in the Executive Branch. The special analyses have provided, also, through the years, an attempt to reconcile investment type outlays from current outlays.

It appears, therefore, that we have not observed the firmly entrenched rules which precipitated the lines of distinction between the various budgets in the French system. In that system, the general budget is particularly identified by the fact that it observes the principles of non-assignment or non-earmarking of receipts to expenses or "la non-affectation des recettes."[327] In other words, receipts which are mainly compulsory collections form a total sum which finances all the expenses of the budget regardless of their nature or objective; there are no "earmarked" revenues. The unified United States budget, on the contrary, now includes both general or so-called Federal funds and assigned or trust funds which the old "administrative" budget did not. In France, theoretically at least, it is only the annexed budgets and the special accounts of the Treasury which are exceptions to the rule of non-assignment. However, article 18 of the organic law does admit certain receipts in the general budget to be earmarked. Earmarking refers to particular accounting procedures in the body of the general budget as long as the expense does not result from a permanent right recognized by law. The procedures are for the cooperative funds,

---

[327] Trotabas with Cotteret, pp. 136-137; Lequêret, p. 12.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

fonds de concours and recovered crédits, rétablissement de crédits,[328] which will be discussed in Chapter 10. They are also for subsidies initiated by the Government to an account of special assignment as long as the subsidy does not exceed twenty percent of the forecast total of expenses in this account.[329]

Exceptions to the rule of non-assignment of receipts are justified by three reasons, either (a) the services function as enterprises which sell their production, or, (b) legislators wished to give a certain amount of autonomy to a service; or, (c) the Government and Parliament offered, in a sense, a guarantee to taxpayers that any new obligatory collection would finance useful activities.[330]

The annexed budgets (3) of which there are eight in number, are explained mainly by the first reason: they are more or less commercial in character. The most important of them is Postes et Telecommunications, P.T.T., which accounts for more than half the total of annual expenditures in the annexed budgets,[331] but they include as well: l'Imprimerie Nationale, les Monnaies et Médailles, Légion d'Honneur, l'Ordre de la Libération, and Prestations Sociales Agricoles and the two furnishers for the military services; le Service des Essences and le Service des Poudres. We should note here, also, that the annexed budget, Prestations Sociales Agricoles or social agricultural tax-payments is only one of the accounts of the Social Security System which

---

[328] Deruel, p. 13, "Acune affectation n'est possible si les dépenses résultent d'un droit permanent reconnu par la loi." See art. 19, also.

[329] Ibid., art. 25, p. 14, "Une subvention inscrite au budget général de l'État ne peut compléter les resources d'un compte spécial que si elle est plus égale à 20 p. 100 du total des prévisions de dépenses."

[330] Lequéret, p. 12.

[331] Cotteret et Émeri, p. 41.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

has been incorporated into the budget for financial and historical reasons, the other accounts of the System are outside of the budget and appear only as an annex to the loi de finances.[332]

All of the annexed budgets enumerated above, are voted at the same time as the general budget and are executed in the same conditions and by the same procedures. The annexed budgets are reported in equilibrium, that is, expenditures equal to receipts. This equilibrium is assured either by transference of a surplus to the general budget or by an advance from the Treasury in the case of a loss which is then charged to the budget after two years.[333]

The Special Accounts of the Treasury (4) differ from the General and Annexed Budgets mainly in the fact that they do not incorporate simple expenditures but rather are loans or advances. They are temporary expenditures in the sense that the State will get this money back at some future date. However, there was a good deal of abuse of these accounts before 1948. For example, they were used in cases where the monies were not recoverable such as when France gave foreign Governments political aid or when France expected her expenses of reconstruction after the war to be financed by reparations from the vanquished nation.[334]

Because of these and other abuses, the special accounts underwent reform during the period 1948 to 1956. First, the number of accounts was reduced from over 400 listed in the Schumann Inventory[335] and, second, Parliament must authorize the opening of a special account, and finally, they must be included in the loi de finances though, in some cases, only

---

[332] Lequéret, p. 17; Gabriel Pallez, Finances publiques (Paris: Les Cours de Droit, 1963-64), p. 76.

[333] Trotabas with Cotteret, p. 127.

[334] Duverger, Finances publiques, pp. 266-267.

[335] Ministères des Finances, Inventaire, 1951, p. 16.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

the balance of the account appears.[336] There are now six categories of special accounts with the Organic Law of 2 January 1959 recognized and each obeys special rules:

1. comptes d'affectation spécial or accounts of special assignment, (earmarked funds) isolate operations financed by their own resources. The most important of these is the Fonds Spécial d'Investissements routiers, or the Special Funds of Highway Investments which is financed by part of the revenues of a tax on petroleum products. The National Lottery is another account included here.

2. comptes de commerce or accounts of commerce, include commercial operations occasioned by their accessory nature to public services. The most important of these is Le Compte de l'Union des Groupements d'Achats Publics, which described the operations of purchase of diverse material destined to public administrative bodies and public collectives. The military sector also has some accounts in this category such as the Compte des fabrications d'armement.

3. comptes de règlement avec gouvernements étranger or accounts of settlement with foreign Governments, records operations made in application of international agreements. Examples are the Compte de la contribution des nations signataires du Pacte Atlantique au financement de diverses dépenses d'intérêt militaire and the Compte d'assistance finançière à la Turquie.

The three other special accounts of the Treasury (4) comptes d'opérations monétaires, (5) compte d'avances du Trésor, and (6) comptes de prêts et de consolidation, regroup operations on crédits and debts. In the account of monetary operations, the two principal categories are the Compte d'émission des monnaies métalliques and the Compte de

---

[336] Duverger, Finances publiques, p. 267.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

participation française au Fonds Européen. The accounts of advances of the Treasury which gain interest for that accounting entity includes only those advances whose duration does not exceed two years or four years in the event of renewal. The advances are made to the benefit of the annexed budgets, to autonomous services, to private and public enterprises, to individuals but, especially to local collectives. The most important account is the one of advances to the departments and communes (collectivities) on the amount of taxes returning to them. Contrary to typical United States practice, it is the fiscal services of the central Government in France which establishes and collects nearly all local taxes. The State budget, then, advances to the departments and communes the sums which will be reimbursed during the year in proportion to fiscal returns. Les comptes de prêts includes loans of a duration greater than four years. Essentially, these are construction loans and the largest account is Le Compte des prêts des Fonds de Développement Économique et Social (F.D.E.S.)[337]

Thus, all the Special Accounts of the Treasury described above, the Annexed Budgets and the General Budget combined form the loi de finances. There are, in addition, some documents annexed to the loi which include: the economic and financial report, the cost of services votés by chapter and the new measures which justify the proposed modifications in the previous amount of services votés including crédits assigned in addition to, in reduction of, or transferred from other uses, the schedule for future years of payments resulting from program authorizations, the list of the special accounts of the Treasury showing the amount of receipts, expenses or deficits forecast for these accounts, the

[337] Ord. 1959, arts. 23-30; Deruel, pp. 14-15; Lequéret, p. 17.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

complete list of parafiscal taxes and, finally, general annexes for the information and control of Parliament.[338]

Some Differences in Budget Content

In contrast to the French budget, the presentation of the United States budget in both format and conceptual framework has changed only a few times since the first budget appeared in 1923.[339] The most recent major change in budgetary presentation was the unified budget for fiscal year 1969. The differences between it and older measures of the budget, the "Administrative" Budget and the "Consolidated Cash" Statement have already been outlined in the last chapter. In this section, therefore, some comparisons will be drawn between the unified budget of 1969 and the French budget as introduced by the Organic Law of 1959. These differences may be classified according to funds included and netting practices, appropriations versus expenditures, and types of expenditure accounts.

Funds Included and Netting Practices

According to the United States budget for fiscal year 1969, "The budget covers all Federal agencies and programs no matter how funded."[340] It not only covers the Federal funds and Trust funds but mixed-ownership and non-stock Government corporations. However, in the budget, differing from the French document, both receipts and expenditures are reported

---

[338]Ibid., art. 32, p. 16; Lequéret, p. 35.

[339]Davie & Duncombe, p. 66.

[340]U.S. Bureau of Budget, The Budget of the United States Government Fiscal Year 1969, (Washington, D.C.: Government Printing Office), p. 48.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

net of proprietary receipts and public enterprise receipts.[341] On the contrary, the French General Budget and Annexed Budgets report the total of receipts and expenditures without deduction except for the rétablissement de crédits to be discussed again in Chapter 10. In their case, expenditure crédits opened in a particular chapter of the budget are annuled when compensated by an assignment of receipts to the same chapter. This procedure is used for transfers between ministries. The most important of these concern national defense and certain sales of military material to foreigners.[342]

In the United States, this category is most similar to intra-governmental transactions which are netted out to avoid duplication. Here, in fact, it has been the policy not to avoid contraction of receipts and expenditures. The Report of the President's Commission on Budget Concepts of October 1967 recommended that "Those receipts of the Government other than taxes which are enterprise or market-oriented should be treated as offsets to expenditures to which they are related."[343] The Commission, however, did consider the fact that a less important purpose of the budget other than the two primary ones is that "budget totals are commonly used to measure the relative size of Government in the national economy." Therefore, it devoted a chapter, Chapter 7, to a discussion of proposed rules for offsetting receipts against expenditures. In conclusion, it recommended that "budget totals will be a more appropriate index of the relative size of Government in the national economy if loan repayments and receipts which resemble

---

[341] Davie & Duncombe, p. 70.

[342] Deruel, p. 13; Lequéret, p. 40 & Cotteret & Émeri, p. 77.

[343] U.S., Report of the President's Commission, p. 9.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

business-type enterprise earnings, or returns on Government property, are offset against the expenditures to which they relate or for which they are earmarked, while taxes and other revenues representing the exercise of sovereign or regulatory powers unique to Government are treated as budget receipts."[344]

Appropriations versus Expenditures

The Commission recommended that the appropriate budget format should present "the President's proposals for the coming fiscal year for Congressional action on (1) new legislation and appropriations and (2) overall fiscal policy."[345] According to the Commission, these major purposes would be best served by a format in which summary budget totals for measuring the economic impact of the budget are provided, in which appropriations are clearly related to expenditures and in which financial transactions are directly related to managerial and accountability requirements of Government as well as to the concepts used in the President's budget.[346]

These characteristics, the Commission believed, were exhibited by the unified budget concept and that concept's use would eliminate the unfortunate employment of several budget formats which had developed to serve the two separate purposes. Economists had tended to turn to the "national income accounts" budget to measure the fiscal impact of Government's activities while Committees on Appropriations of Congress had tended to concern themselves with receipts and expenditure totals within the context of the "administrative" budget. Neither budget could serve

---

[344] Ibid., pp. 21-22.

[345] Ibid., p. 12.

[346] Ibid., p. 13.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

alone in decision-making for both the efficient allocation of resources objective and the economic stabilization and growth objectives.[347] The new unified budget, therefore, should be structured to ensure the interdependencies between these two functions of the budget.

It was to achieve the dual goal that the Commission went into some detail in recommending that the President's budget focus not primarily on expenditures as it had in the past, but that it give "more prominence to the new legislation and appropriations being requested of the Congress."[348] Admittedly, expenditures are a good measure of the current size of the budget and, in relation to receipts, do reveal the economic impact of the budget, but, appropriations better indicate the choices being made between alternative programs and are a prerequisite to expenditures. Therefore, following the Commission's recommendations, the unified budget of 1969 assigned to budget authority the first and most prominent position within the three main sections of the budget summary.

Types of Expenditure Accounts

In the emphasis upon appropriations, we come to a key difference between the French and the United States budget. As the Commission pointed out, "Congress does not vote expenditures as such; it votes authorizing legislation and appropriations. Expenditures are a consequence of these actions."[349] The French budget, on the other hand, observes much more strictly the annuality of the budget process. Though it does

---

[347] Ibid.

[348] Ibid., p. 13.

[349] Ibid.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

recognize two categories of authorizations: the authorization to engage in an expenditure and the authorization to pay it, called crédit d'engagement and crédit de paiement, respectively: however, for ordinary expenses, the second term covers both cases because the engagement and the payment takes place in the framework of the same year.[350] It is only for investment expenditures where the distinction is made between the two types of crédits. In this category, both the authorization to engage, called here, autorisations de programme which can extend over several years and the crédits de paiements appear. According to the Organic Law of 1959, a single chapter of the budget can contain both types of crédits. However, except for crédits de paiements which appear in the investment chapters and available crédits figuring in chapters listed by the loi de finances up to a limit of one-tenth the amounts of the particular chapter, crédits de paiements must be used in the year of their initial notation and cannot be used in the budget of the following year.[351] In the United States, however, though most appropriations for current operations are one-year appropriations, there are multiple-year appropriations and even no-year appropriations which "include most of those for construction, some for research and nearly all trust fund appropriations.[352]

Thus, the French budget is much closer to an annual expenditure budget than that of the United States. However, it is important to note some offsetting devices in the French budget which can mean substantial deviations from the total annual expenditure budget voted initially by Parliament. For example, there are three subdivisions of crédits in the

---

[350] Lequéret, p. 27. [351] Ord. 1959, art. 17; Deruel, p. 12.

[352] U.S. Budget 1969, p. 193.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

French budget and, according to the organic law, they must be placed in separate chapters. They are estimated or évaluatifs provisional or provisionnels, and limitational or limitatifs. According to article 9, estimated crédits serve to pay the debts of the State resulting from special legislative dispositions or permanent agreements approved by law. They would apply to such categories as the public debt or expenses of justice and civil reparations, not unlike the nature of expenditures from permanent authorizations in the United States. Expenses applied to these crédits can be larger than the amount of estimated crédits in any given chapter containing them. Provisional crédits, on the other hand, can have expenses applied to them only up to the limit of opened crédits. However, if it is shown that these are insufficient during the course of the year, the Minister of Finance can draw upon global crédits also included in the loi de finances which are opened for emergency or accidental expenses.[353] Special allowances or lump-sum allowances are also included in the budget summary table of the United States, "to cover possible additional supplemental proposals."[354]

In case of urgency, if the global crédits are still not sufficient, supplementary crédits can be opened by advance decrees taken on the report of the Minister of Finance. In the last case, this action must be ratified by Parliament in the next loi de finances. Provisional crédits apply, for example, to payments for housing and food expenditures for the Armed Forces.[355] These crédits may differ from the sum of expenses assigned to them because the expenses are engaged in by a law or an order, règlement, countersigned by the Minister of Finance. Each year, the loi

---

[353] Ord. 1959, arts. 9 & 10; Deruel, pp. 10-11.

[354] U.S. Budget 1969, p. 195.

[355] Rivoli, p. 35.

[354] U.S. Budget

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

de finances includes a list of the chapters where crédits are of a provisional character.

Finally, crédits limitatifs are strictly limited in their size, as the name suggests, to the amounts inscribed in the budget. Any crédit not previously assigned to the provisional or estimated category automatically becomes a limited crédit.[356] Thus, it would seem that the distinction among the three types of crédits facilitates corrections in the budgetary authorization as far as amounts of crédits are concerned. However, in practice, it is only the legal procedure which causes them to differ. Even the crédits limitatifs can be increased by a supplementary finance bill called rectificatif or collectif. In fact, the Minister of Finance can draw upon three sources by decrees: (1) global crédits for accidental expenses, (2) advance decrees in case of urgency if the financial equilibrium of the last finance law is not affected, or (3) advance decrees in the case of urgency and pressing necessity of national interest taken in the Council of Ministers upon the advice of the Council of State.[357] More recently, the Minister can draw, also, upon the Fonds d'Action Conjoncturelle (F.A.C.) or optional crédits, which are contained in the authorizations of program by ministerial department in the initial finance bill. In general, the optional slice of each ministry is approximately 10 percent.[358] We will have more to say about changes in the budgetary authorizations initiated by the Government during the course of the year in Chapter 11 concerning the execution of the budget.

---

[356] Ord. 1959, art. 11; Deruel, p. 11.

[357] Deruel, art. 11, p. 11.

[358] Banque Nationale de Paris, "Les Crédits Optionnels et l'adaptation du budget français a l'action économique," Banque Nationale de Paris No. 1e (janv. 1970): 3-7.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Contents of the U.S. Budget (F.Y. 1969)

In describing the format of the U.S. budget, it is apparent that it is an appropriations budget by the prominence given budget authority since 1969. In the very first part of the statement, just as the President's Commission had recommended, appropriations or, more correctly, budget authority is listed as can be seen in Figure 2 on the following page. Budget authority includes permanent authority or that which is available without current Congressional action and that authority proposed in this budget. It is the second type of authority which is, by far, the larger portion though it is not spent necessarily in the fiscal year under discussion. The sum of these two types of budget authority is reduced by certain proprietary receipts and interfund and intragovernmental transactions to arrive at total budget authority. There are, in fact, two situations where interfund and intragovernmental transactions are not deducted, but appear as special deduct lines in computing total outlays and budget authority. One of these is the Government's payments as employer into the trust funds for retirement of its employees and the interest receipts of the trust funds.[359] Proprietary receipts such as "interest, sale of property and products, charges for nonregulatory services, rents and roylaties, etc., are not counted as budget receipts, but are offset against expenditures in total for each agency and for each function. They are offset against new obligational authority in similar amounts."[360] New obligational authority or what is now called simply, budget authority, is that authority becoming newly available provided by current or prior actions of Congress.

---

[359] U.S. Budget, F.Y. 1969, p. 49. [360] Ibid., p. 50.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

FIGURE 2

BUDGET SUMMARY

	1967 actual	1968 estimate	1969 estimate
Budget authority:			
Requiring current action by Congress:			
Previously enacted			
Proposed in this budget.			
Becoming available without current action by Congress			
Deductions for interfund and intragovernmental transactions & applicable rec'p'ts			
Total, budget authority			
Receipts, expenditures and net lending:			
Expenditure account:			
Receipts			
Expenditures (excludes net lending). .			
Expenditure account surplus (+) or deficit (-)			
Loan Account:			
Loan disbursements			
Loan repayments			
Net lending			
Total budget:			
Receipts			
Expenditures and net lending			
Budget surplus (+) or deficit (-) . .			
Budget financing:			
Borrowing from the public			
Reduction of cash balances, etc..			
Total, budget financing			

Outstanding debt, end of year:	1966 actual
Gross amount outstanding. . .	
Held by the public.	

MEMORANDUM - OUTSTANDING LOANS, END OF YEAR	
Direct loans (in loan account	
Guaranteed and insured loans	

SOURCE: U.S., Bureau of Budget, U.S. Budget for Fiscal Year 1969, Table 1, p. 51.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

In the second section of the U.S. budget, "Receipts, Expenditures and Net Lending," we approach more closely the intent of the French budget. Here, we find a separation between the receipt-expenditure account and the loan account. Receipts include all tax revenues, fees and trust fund receipts and other current receipts but exclude public enterprise receipts and proprietary receipts from the public as described above. Outlays include payments of obligations incurred in prior years or in the same year. Outlays are stated net of receipts for three types of funds: public enterprise, intragovernmental and trust revolving funds. Outlays include both expenditures and net lending. Net lending is simply those checks representing loan disbursements less any offsets in the loan account. All other budget outlays relate to the expenditure account, and are called expenditures.

Expenditures, as in the case of receipts, are reported net of certain items such as proprietary receipts and public enterprise receipts. Expenditures do not include retirement of debt nor purchase of the Government's own securities.[361] They do include, however, certain lending programs such as "nonrecourse loans of the Commodity Credit Corporation, and loans where repayment is contingent upon some future happening, such as the discovery of minerals" and foreign loans, "not on commercial terms."[362] In addition, administrative and operating expenses, interest, writeoffs of loans and other costs and revenues of loans are counted here and not in the loan account.[363] The main problem with the second section of the budget summary as described above and illustrated in Figure 2 would appear to be the difficulty of relating it to the first section. As we have indicated, expenditures may be payments of obligations

[361] Ibid., p. 194. [362] Ibid., p. 49. [363] Ibid., p. 48.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

incurred in prior years or in the same year, but there is no attempt made in the budget summary tables to derive the connection between the two except for the single offering of total estimate figures for the fiscal year in question.

After recording the expenditure account surplus or deficit, the second section of the budget records the loan account. Transactions here "are limited to those affecting the principal amount of loans outstanding and, in a few cases, the unamortized premium or discount where the loan is in the form of a mortgage purchase."[364] Loan repayments are deducted from loan disbursements to calculate the balance in the section called, "net lending." Finally, "net lending," plus the expenditure account deficit, equals the total budget deficit.

Quantitative Comparisons of Expenditure on Loan Accounts and Budget Financing

As budget figures comprising the expenditure and loan accounts are now available over a certain period for both the U.S. and French budgets, Table 2 compiles these figures for the two budgets for the period 1960 to 1971. Table 3 derived from the same basic data compares expenditures and loan disbursements as a proportion of global expenses and net lending as a proportion of gross domestic private product. The outcome is, undeniably, that loan disbursements have represented a larger proportion of global expenditures in the United States than they have in France since 1964. In three years: 1966, 1967 and 1968, U.S. loan disbursements represented more than 10 percent of global Federal expenditures. Nevertheless the balance in the loan account or, "net lending" in

[364] Ibid.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE

COMPARATIVE DATA ON EXPENDITURE AND LOAN ACCOUNTS:

	1960	1961	1962	1963	1964
UNITED STATES (Millions of Dollars)					
Receipts, Expenditures and Net Lending					
Expenditure Account:					
Receipts (R_1)	$ 92,492	$ 94,389	$ 99,676	$106,560	$112,662
Expenditures (E_1)	90,341	96,597	104,462	111,456	118,039
Surp. or Def.(-)	$ 2,151	$- 2,208	$- 4,786	$- 4,896	$- 5,377
Loan Account:					
Loan Disbursements	$ 8,310	$ 7,869	$ 9,621	$ 9,646	$ 10,237
Loan Repayments (R_2)	6,427	6,671	7,271	9,791	9,693
Net Lending	$ 1,882	$ 1,198	$ 2,351	$ - 145	$ 544
Total Budget:					
Receipts (R_1+R_2)	$ 98,919	$101,060	$106,947	$116,351	$122,355
Outlays(E_1+Loan Dis.)	98,651	104,466	114,083	121,102	128,276
Surp. or Def.(-)	$ 268	$- 3,406	$- 7,136	$- 4,751	$- 5,921
Budget Financing:					
Net Borrowing or Repayment (public)	$ 2,174	$ 1,427	$ 9,769	$ 6,088	$ 3,092
Other Means	- 2,443	1,979	- 2,632	- 1,337	2,830
Total Means of Financing	$- 269	$ 3,406	$ 7,137	$ 4,751	$ 5,922
FRANCE (Millions of Francs)					
Global Receipts and Expenditures					
Definite Account:					
Receipts (R_1)	62,318f	67,983f	74,669f	85,573f	95,626f
Expenditures (E_1)	60,067	66,599	76,638	85,257	91,122
Surp. or Def.(-)	2,251f	1,384f	- 1,969f	316f	4,504f
Temporary Account:					
Loans (E_2)	7,749f	7,182f	6,559f	7,997f	6,523f
Loan Repayments(R_2)	671	1,048	991	1,140	1,243
Net Lending	7,078f	6,134f	5,568f	6,857f	5,280f

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

2

TOTAL BUDGET AND BUDGET FINANCING 1960-1971

1965	1966	1967	1968	1969	1970	1971
$116,833	$130,856	$149,552	$153,671	$187,784	$193,743	$188,392
117,181	130,820	153,201	172,802	183,072	194,456	210,308
$- 348	$ 36	$- 3,649	$-19,131	$ 4,712	$- 713	$-21,916
$ 10,911	$ 14,628	$ 17,676	$ 20,327	$ 13,117	$ 8,313	$ 8,131
9,662	10,796	12,623	14,297	11,640	6,182	7,014
$ 1,249	$ 3,832	$ 5,053	$ 6,030	$ 1,477	$ 2,131	$ 1,117
$126,495	$141,652	$162,175	$167,968	$199,424	$199,925	$195,406
128,092	145,448	170,877	193,129	196,189	202,769	218,439
$- 1,597	$- 3,796	$- 8,702	$-25,161	$ 3,235	$- 2,844	$-23,033
$ 4,061	$ 3,076	$ 2,838	$ 23,100	$- 1,044	$ 3,814	$ 19,448
- 2,465	720	5,863	2,061	- 2,192	- 969	3,585
$ 1,596	$ 3,796	$ 8,702	$ 25,161	$- 3,236	$ 2,845	$ 23,033
102,678f	108,933f	116,892f	125,763f	147,747f	162,679f	171,103f
98,550	107,722	119,713	133,536	146,113	159,102	169,776
4,128f	1,211f	- 2,821f	- 7,773f	1,634f	3,577f	1,327f
5,828f	6,656f	5,318f	5,572f	5,016f	5,134f	5,311f
1,562	1,350	1,734	1,934	2,013	2,122	2,231
4,266f	5,306f	3,584f	3,638f	3,003f	3,012f	3,080f

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE

	1960	1961	1962	1963	1964
Total Budget:					
Receipts (R_1+R_2)	62,989f	69.031f	75,660f	86,713f	96,869f
Outlays (E_1+E_2)	67,816	73,781	83,197	93,254	97,645
Surp. or Def.(-)	- 4,827f	- 4,750f	- 7,537f	- 6,541f	- 776f
Passage from "l'exercice" to "gestion"	670	410	1,430	- 1,740	- 710
Budget for finance	- 4,157f	- 4,340f	- 6,107f	- 8,281f	- 1,486f
Net Borrowing incl. Treas. Bills(public)	2,380f	80f	1,590f	3,610f	- 1,730f
Other Means	1,777	4,260	4,517	4,671	3,216
Total Means of Financing	4,157f	4,340f	6,107f	8,281f	1,486f

SOURCES: U.S. President, Office of Management and Budget, U.S. Budget for Fiscal Year 1971, Table 15, p.584; and U.S. Budget for Fiscal Year 1973, Table 17, p. 643.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

2 - Continued

1965	1966	1967	1968	1969	1970	1971
104,240f	110,283f	118,626f	127,697f	149,760f	164,801f	173,334f
104,378	114,378	125,031	139,108	151,129	164,236	175,087
- 138f	- 4,095f	- 6,405f	-11,411f	- 1,369f	565f	- 1,753f
330	2,070	70	1,950	- 2,010	3,120	- 2,140
192f	- 2,025f	- 6,335f	- 9,461f	- 3,379f	3,685f	- 3,893f
- 580f	- 7,230f	10,860f	4,150f	3,080f	- 3,200f	- 1,890f
388	9,255	- 4,525	5,311	299	- 485	5,783
- 192f	2,025f	6,335f	9,461f	3,379f	- 3,685f	3,893f

SOURCES: France. Ministère de l'économie et des finances. "Évolution du budget de l'état de 1947 à 1972", Statistiques et études financières, 26e année, numéro spécial (1974), Tables 1, 3, 23, 33 and 34.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 3

COMPARATIVE DATA ON EXPENDITURES AND LOAN DISBURSEMENTS AS PERCENTAGE OF GLOBAL EXPENDITURES AND NET LENDING AS PERCENTAGE OF GROSS PRIVATE DOMESTIC PRODUCT 1960-1971

	UNITED STATES			FRANCE		
Year	Expenditures as % of Global Exp.	Loan Disbursements as % of Glo. Exp.	Net Lending as % of G.P.D.P.	Expenditures as % of Global Exp.	Loan Disbursements as % of Glo. Exp.	Net Lending as % of G.P.D.P.
1960	91.6	8.4	0.4	88.6	11.4	2.6
1	92.5	7.5	.3	90.3	9.7	2.1
2	91.6	8.4	.5	92.1	7.9	1.7
3	92.0	8.0	.0	91.4	8.6	1.9
4	92.0	8.0	.1	93.3	6.7	1.3
5	91.5	8.5	.2	94.4	5.6	1.0
6	89.9	10.1	.6	94.2	5.8	1.1
7	89.7	10.3	.8	95.7	4.3	.7
8	89.5	10.5	.9	96.0	4.0	.6
9	93.3	6.7	.2	96.7	3.3	.5
70	95.9	4.1	.3	96.9	3.1	.4
1	96.3	3.7	.2	97.0	3.0	.4

SOURCES: See above, Tables 1 and 2.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Figure 3a. Loan disbursements as percentage of global expenditures for fiscal years 1960 through 1971.

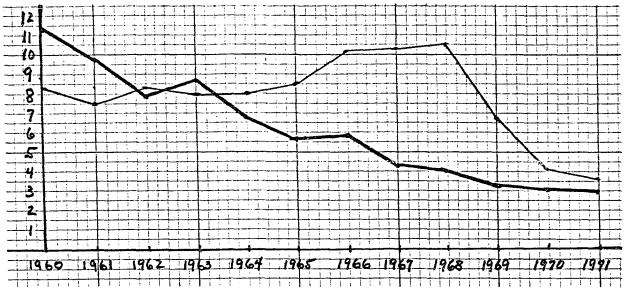
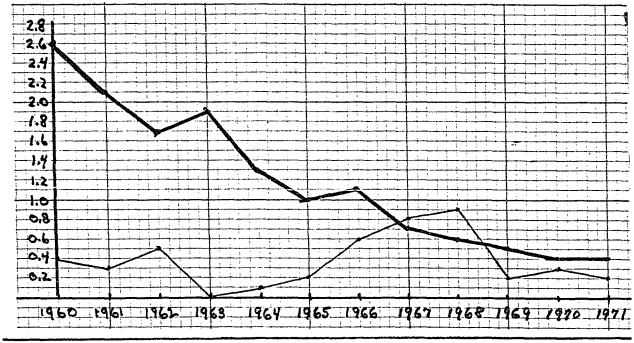


Figure 3b. Net lending as percentage of gross private domestic product for fiscal years 1960 through 1971.



SOURCE: Table 3.

Legend: France
United States

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

the U.S. has been quite consistently a smaller proportion of gross private domestic product than in France, never rising about nine-tenths of 1 percent. This observation appears to be due, mainly, to a much better record of loan payments in the U.S. which can be viewed from Table 2. The relationship of loan disbursements and net lending for the U.S. versus France may be more clearly seen in Figures 3a and 3b.

The third major section of the budget, since eliminated, involves the means of financing the total budget deficit or the disposition of the surplus. The primary means of budget financing is a change in the outstanding Government debt held by the public or a change in the Treasury cash balance. On the contrary, the first means, or change in the public debt has not been a major means of financing the budget imbalance in France. Table 2 indicates that net borrowing from the public has always moved, at least, in the same direction as the need for financing in the U.S. except for the earliest year, 1960; but, in France, net borrowing from the public has moved in the opposite direction in five years: 1964, 1965, 1966, 1970 and 1971. Thus Table 2 permits a comparative view of not only the expenditure and loan accounts of each nation but their means of financing the budget balance. It is unfortunate that the U.S. no longer furnishes the separate loan account information in the form noted above. It is even more unfortunate that neither country furnishes the means of financing information in their principal summary table, if only to serve the purpose of public information.

Contents of the U.S. Budget (F.Y. 1977)

The new face of the budget since fiscal year 1975 and the one currently employed is presented in Figure 4 on the next page. There are

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

FIGURE 4

BUDGET SUMMARY

	1975 actual	1976 estimate	TQ estimate	1977 estimate
Budget authority (largely appropriations):				
Available through current action by Congress				
Enacted and pending				
Proposed in this budget				
To be requested separately				
Available without current action by Congress				
Deductions for offsetting receipts				
Total budget authority				
Receipts and outlays:				
Receipts:				
Federal funds				
Trust funds				
Interfund transactions				
Total budget receipts				
Outlays:				
Federal funds				
Trust funds				
Interfund transactions				
Total budget outlays				
Surplus or deficit (-):				
Federal funds				
Trust funds				
Total budget				

	1974 actual
Outstanding debt, end of year:	
Gross federal debt	
Held by:	
Gov't. agencies	
The public	
Fed. Res. System	
Others	

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

FIGURE 4 -Continued

	1975 actual	1976 estimate	TQ estimate	1977 estimate
MEMORANDUM				
Outstanding loans, end of year:				
Direct loans-on-budget acc'ts. .				
Direct loans-off-budget acc'ts..				
Guaranteed & insured loans . . .				
Gov't.-sponsored agencies loans				

SOURCE: U. S., President, Office of Management & Budget, U. S. Budget Fiscal Year 1977, Table 1, p. 311, (adaptation).

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

three outstanding features of the modern version that are important to notice in view of our previous discussions: (1) there is no longer a separate loan account, (2) receipts and outlays are now individually recorded by trust or federal fund account, and (3) budget financing has been eliminated from the table. Offsetting to some degree the deletions from the budget are additions to the budget which include new categories for the outstanding debt and outstanding loans, the former including a special category under "the public" for the holdings of the Federal Reserve System. The figures reported here, however, are only the actual ones for the last completed fiscal year and the one prior to it, or 1974 and 1975 for the fiscal budget of 1977.

Means of Financing the U.S. Budget

The same observance was practised in the special "Means of Financing and Outstanding Debt" table as it appeared in the 1969 version[365] and until now. The table consists of a description of increases or decreases in debt held by nonbank investors, commercial banks and the Federal Reserve Banks. Federal debt is held, also by the Government in trust funds and public enterprise accounts. Most of the Federal debt is issued by the Treasury and is called the public debt but, some of the Federal debt is issued by independent federal agencies and, then, is called Agency debt. Gross Federal Debt is the sum of Treasury and Agency debt.

Before the 1969 budget, the sale of certificates of participation in loans, a part of Agency debt, were treated as the sale of an asset and, hence, as a receipt offsetting expenditures in the public enterprise

[365] Ibid., p. 61.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

funds concerned. As a staff paper for the President's Commission observed, "criticism took the form of Congressional complaint that it was a deliberate evasion of the public debt limit, and there were widespread complaints by the academic community and the general public, as well as by Congress, that the participation certificates resulted in a deliberate understatement of the true level of expenditures and the deficit of the Federal Government."[366] Thus, with the unified budget, upon the recommendation of the President's Commission, the sale by the Government of participation certificates are now treated as borrowing or as a means of financing the deficit.[367]

There are other means of financing the budget than borrowing whether it be from the public by the Treasury or otherwise, seignorage, for example, is one of four identified means of budget financing appearing in a subsidiary summary table called "Budget Financing and Outstanding Debt" in the U.S. Budget Document.[368] If the cost of the metal used in minting coins is less than their face value, then, the difference is essentially a profit to the Treasury and is known by the feudal term, seignorage. Formerly, it was treated as a budget receipt, but following the recommendation of the President's Commission, it is treated now as a means of financing the budget.[369]

Another change which affects the means of financing, and occurred

---

[366]Wilfred Lewis, Jr., ed., Budget Concepts for Economic Analysis, Studies of Government Finance (Washington, D.C.: The Brookings Institution, 1968), p. 28.

[367]U.S. President's Commission, p. 8.

[368]See, e.g., U.S. Budget FY 1977, Table 11, p. 323.

[369]Ibid., p. 57.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

with the introduction of the unified budget concept is the definition of cash and monetary assets. United States drawing rights in the International Monetary Fund are now treated as cash. There, movements of cash between the Fund and the Treasury no longer affect any budgetary category nor budgetary totals. Even the exchange of notes for cash in connection with the subscriptions to the International Monetary Fund do not affect budget totals.[370]

Changes in governmental liabilities for checks outstanding and deposit fund balances are considered, also, a means of financing the budget or disposing of the surplus. Change in checks outstanding "consists of the increase in checks and military payment certificates outstanding; accrued interest payable on public debt securities; and other Treasury liabilities offset by the increase in miscellaneous Treasury assets (unamortized discount from sale of public debt securities and other deferred charges)."[371] Changes in liabilities for deposit fund balances refer to special accounts in which Government holds money and acts as a banker or agent for others.

---

[370] U.S. Budget F.Y. 1969, p. 468.

[371] Davie and Duncombe, pp. 81-82, footnote 1.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

CHAPTER 7

CONTENTS OF THE BUDGET OVER TIME

Overview of Chapter 7

The major purpose of this closing chapter of Part II is to provide some basic data on the trends of expenditures, receipts and balances in France and the United States for the governmental budget from 1921 to 1971. However, there are certain comparisons illustrating substantive difference between the two nation's budgets over time which will be considered initially. These include: (1) the separation of French expenditures into ordinary and capital, civil and military expenditures and loans and advances, (2) the administrative and functional classifications in the budget, (3) extrabudgetary activities in the two countries, and (4) tax expenditures in the U.S. budget.

Subdivisions of French Expenditures

The French budget distinguishes among three permanent charges of the State: ordinary expenditures, capital expenditures, and loans and advances.[372] Formerly, public expenditures had appeared only as crédits allocated by ministries, then by subdivisions of ministries, then by personnel, material and work. In the new classification, the finance bill distinguishes definite expenditures, dépenses definitifs

[372] Trotabas with Cotteret, p. 189.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

from those of a temporary character such as loans and advances. It, also, distinguishes operating expenditures, dépense de fonctionnement or dépense ordinaire from capital expenditures, dépense en capital, and finally, separates civil from military expenditures. Thus, the finance bill contains five basic categories: (1) ordinary civil expenditures, (2) capital civil expenditures, (3) ordinary military expenditures, (4) capital military expenditures, and (5) loans and advances. These classifications are repeated in each of the three distinct budgets included in the loi de finances: the general budget, the annexed budgets and the special accounts of the Treasury.

In the United States, a similar division occurs between civil and military expenditures in that portion of the budget document which offers an analysis of Federal activities by function. Table 4 compares outlays in France and the United States for these two major expenditure categories as well as for interest outlays for the period 1951 to 1971. In both nations, it is clear that civilian outlays form a larger portion of total budget outlays than military ones do now. In the U.S., the fact is true since 1964 only. What is not so clearly seen in the table but which can be seen from Table 5, which is based on the same data in percentage terms, is that civil outlays have been increasing their share relative to the military in both nations over the period. Civil outlays in France began from a base almost twice as large as in the U.S. at the beginning of the period, 65.6 percent of total outlays as opposed to 36.3 percent in the U.S., but increased their proportion of total budget outlays by only 14 percent at the end of the period, or to 79.5 percent. On the other hand, though civil outlays did increase by 4 percent more than that, or 18 percent, in the United States, they were still 25 percent

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE

COMPARATIVE DATA ON BUDGETARY OUTLAYS

(Millions of Dollars

UNITED STATES

Year	Military	Civil and Other	Interest	Total Outlays
1951	$ 22,444	$ 15,999	$ 5,615	$ 44,058
2	45,963	13,592	5,853	65,408
3	51,830	15,940	6,504	74,274
4	47,872	13,518	6,382	67,772
5	42,089	16,111	6,370	64,570
6	41,825	17,928	6,787	66,540
7	44,414	17,775	7,244	69,433
8	44,462	31,322	6,936	82,720
9	46,655	38,627	7,070	92,352
60	45,841	38,128	8,299	92,268
1	47,491	42,316	8,108	97,915
2	51,179	47,511	8,321	107,011
3	52,211	49,894	9,215	111,320
4	53,651	55,206	9,810	118,667
5	49,583	58,025	10,358	117,966
6	56,770	66,517	11,285	134,572
7	70,092	75,774	12,548	158,414
8	80,517	84,572	13,744	178,833
9	81,232	87,525	15,791	184,548
70	80,295	97,981	18,312	196,588
1	77,661	114,155	19,609	211,425

SOURCES: U. S. President, Bureau of Budget, "Special Analysis K" U.S. Budget for Fiscal Year 1959 for years 1951-1957, p.954; U.S. Budget for Fiscal Year 1969, Table 17, p. 540 for years 1958-1967; Office of Management and Budget, U.S. Budget for Fiscal Year 1973, Table 19, for years 1968-1971, pp.546-550.

NOTES: Administrative budget is used up to 1958 and the unified budget, thereafter. In addition, up to 1958, only interest on public debt is contained in interest column. After that date, interest column contains total interest less offsetting receipts.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

4

IN FRANCE AND THE UNITED STATES 1951-1971

and Millions of Francs)

FRANCE

Military	Civil and Other	Interest	Total Outlays
9,681f	20,850f	1,229f	31,760
15,232	23,415	1,374	40,021
18,177	24,857	1,534	44,568
14,409	26,875	1,845	43,129
10,799	29,472	1,950	42,221
14,261	32,912	2,235	49,408
14,896	38,068	2,430	55,394
14,663	39,568	3,210	57,441
16,144	45,089	3,411	64,644
16,575	48,128	3,113	67,816
17,920	52,805	3,056	73,781
18,769	60,692	3,738	83,197
19,776	69,881	3,597	93,254
20,674	73,874	3,097	97,645
21,291	79,633	3,454	104,378
22,366	88,686	3,326	114,378
23,771	96,522	4,738	125,031
24,919	108,336	5,853	139,108
25,923	118,461	6,745	151,129
28,296	129,236	6,704	164,236
30,152	139,078	5,857	175,087

SOURCES: France, Ministère de l'économie et des finances, "Évolution du budget de l'état de 1947 à 1972", Statistiques et études financières, 26e année, numéro spécial (1974). See Table 3, pp. 10-11.

NOTES: Since 1959, interest column includes certain expenditures which offset receipts as well as interest on the perpetual debt and civil and military pensions.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 5

COMPARATIVE DATA ON PERCENTAGE DISTRIBUTION OF BUDGETARY OUTLAYS BY CATEGORY IN FRANCE AND THE UNITED STATES 1951-1971

	UNITED STATES				FRANCE		
Year	Military	Civil and Other	Interest	Total Outlays	Military	Civil and Other	Interest
1951	50.9	36.3	12.8	100.0	30.5	65.6	3.9
2	70.3	20.8	8.9	100.0	38.0	58.6	3.4
3	69.8	21.5	8.7	100.0	40.8	55.7	3.5
4	70.6	19.9	9.5	100.0	33.4	62.3	4.3
5	65.2	25.0	9.8	100.0	25.6	69.8	4.6
6	62.9	26.9	10.2	100.0	28.9	66.6	4.5
7	64.0	25.6	10.4	100.0	26.9	68.7	4.4
8	53.8	37.9	8.4	100.0	25.5	68.9	5.6
9	50.5	41.8	7.7	100.0	25.0	69.7	5.3
60	49.7	41.3	9.0	100.0	24.4	71.0	4.6
1	48.5	43.2	8.3	100.0	24.3	71.5	4.2
2	47.8	44.4	7.8	100.0	22.6	72.9	4.5
3	46.9	44.8	8.3	100.0	21.2	74.9	3.9
4	45.2	46.5	8.3	100.0	21.2	75.6	3.2
5	42.0	49.2	8.8	100.0	20.3	76.4	3.3
6	42.2	49.4	8.4	100.0	19.5	77.6	2.9
7	44.2	47.8	8.0	100.0	19.0	77.2	3.8
8	45.0	47.3	7.7	100.0	17.9	77.8	4.3
9	44.0	47.4	8.6	100.0	17.1	78.4	4.5
70	40.8	49.9	9.3	100.0	17.3	78.6	4.1
1	36.7	54.0	9.3	100.0	17.2	79.5	3.3

SOURCE: See Table 4.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

below their relative share of the French budget, or only 54 percent of U.S. total budget outlays in 1971. In spite of growing emphasis on civil expenditures relative to military expenditures in the U.S., the former still remain a smaller proportion of the budget here than in France.

Another difference between the presentations of the two budgets is that in the U.S., there is no distinction made between ordinary and capital expenditures which the French do prominently, as apparent in Figure 1 in Chapter 6. There have been recurrent suggestions that the United States adopt a capital budget since the 1930's.[373] The procedure of the "divided" budget, nevertheless, has never been utilized and, in fact, the President's Commission, in 1967, strongly recommended against the idea of a capital budget because "it would seriously understate the current draft by the Government on the economic resources of the private sector. The level of Government borrowing should be conditioned not by the amount of capital goods that the Government is creating or purchasing, but by much broader requirements."[374] There are French economists, also who have come to similar conclusions with respect to the use of the double budget. Their argument is that the two divisions lead to financing practices, the use of taxes or borrowing, purely on the basis of in which budget the expenditures appear. Decisions of financing the budget should depend on variable factors in the national situation and not on the relatively more permanent structure of budgetary classification.[375] Of course, one must add

---

[373] See discussion and bibliography in Burkhead, pp. 203-211; Lewis, Jr., Budget Concepts, pp. 35-57; U.S. President's Commission, pp. 33-35; and above Chapter 4.

[374] U.S. President's Commission, p. 33

[375] H. Brochier et P. Tabatoni, Économie financière, 2nd. éd. (Paris: Collection "Thémis", 1963), p. 503.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

that the separation into an ordinary and capital bydget account framework does not preclude the use of tax or loan finance in either or both budgets.

In the United States, the President's Commission did recommend the provision of special tabulations of Federal expenditures of an investment nature as is done in "Special Analysis D" of the budget document since 1951.[376] Admittedly, the analysis is "not a precise measure of the difference between capital and current items" nor does it permit the calculation of "the net addition to the value of federally owned assets" but it "does provide useful general magnitudes."[377] Certainly, it would be difficult in the French system as well to compute the net addition to the value of Government owned assets as, for example, there appears to be little provision made for depreciation, obsolescence, or anticipated losses on loan programs.

Administrative and Functional Classifications

In addition to the divisions we have already described for ordinary and capital expenditures and loans and advances in the French budget, these classifications are further detailed by title. The title categories are partly administrative and partly economic in nature for which the U.S. budget has no broad-based counterpart. There is, of course, the program by activities section of the Schedule of Program and Finance in the U.S. Budget but it "is individually developed for each appropriations fund, and is not uniform on a Government-wide basis."[378] The wholly object classification known as the Federal Program by Function

---

[376] Burkhead, p. 207.

[377] U.S. President, Bureau of Budget, Budget F.Y. 1969, pp. 497-498.

[378] Appendix to U.S. Budget F.Y. 1971, p. 6.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

will be discussed below.

In the French budget, there are four titles each for ordinary expenditures and loans and advances, and three for capital expenditures, according to article 6 of the Ordonnance of 1959. For ordinary expenditures: Title I, Debt Charges, "charges de la dette," Title II, Public Powers, "dotations des pouvoirs publics," Title III, Operating expenses for Services, "dépenses de fonctionnement des services," and Title IV, State Interventions, "interventions de l'État." For capital expenditures: Title V, Investments Executed by the State, "investissements éxécutés par l'État," Title VI, Investments Executed with the Help of the State, "investissements éxécutés avec le concours de l'État," and Title VII, Expenses of Reconstruction, "dépenses de reconstruction." The third group for loans and advances no longer constitutes a particular title in the budget. It is composed of the loans of the funds of economic and social development, "prêts du fonds de développement économique et social," the loans concerning housing, "les prêts intéressant le logement," diverse loans authorized by the State, "des prêts divers consentis par l'État, and Treasury advances, "les avances du Trésor," which are found among the special accounts of the Treasury or certain expenses on assigned resources.[379]

Instead of the mixed administrative classification of the French system described above, the U.S. employs the technique of developing budget expenditures by object classification. Of course, both systems do contain the purely administrative groupings which is by agency in the U.S., and by ministry in France.

---

[379] Trotabas with Cotteret, p. 190; Deruel, p. 10, Note Titles III, IV and V[bis] are used to record civil and military expenditures as subdivisions.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

In the U.S. Program by Function section, there are twelve major functions served outside of net lending, all of which are reported within the budget in terms of proposed estimates for the coming fiscal year, estimates for the year in progress and actual figures for the fiscal year just closed.[380] In France, a functional budget was not mentioned at all in the Ordonnance of 1959 though the Decree of 1956 did make a brief allusion to an annex of the budget which would present the cost of services by function and elements which permit, according to their object, an appreciation of the activity. In fact, the French budgetary presentation did include the functional form up until 1966 in the documents annexed to the finance bill and then, again, after 1973. Nevertheless, its importance in decision making is relatively minor as compared with the position of the functional budget in countries such as the United States.[381] The purpose of the functional presentation in France has appeared to be, primarily, for broadening public knowledge of governmental activities, as it is most frequently found in the French version of the Budget in Brief issued by the French Budget Management Office.[382] Some economists suggest, however, France must be prepared to adopt the functional budget if it is ever to generalize la rationalisation des choix budgétaires. Until recently, however, the functional budget has been prepared by the Minister of Economy and Finance after the budget was voted. Hence, as the presentation was after the fact, it served only for informational purposes.[383]

---

[380] U.S. Budget F.Y. 1969, p. 79.

[381] Jacques Edmond-Grangé, Le Budget Fonctionnel en France, Avant-propos de Louis Trotabas, Preface de C-A Colliard, Bibliothèque de Science financière sous la direction de Louis Trotabas, (Paris: J.G.D.J., R. Pichon et R. Durand-Auzias, 1963, p. 2.

[382] Lequéret, p. 25.

[383] Cotteret and Emeri, pp. 43-44.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Extrabudgetary Activities

The several substantive differences analyzed above, reveal what the two nations' budgets contain. The next few paragraphs will examine some Governmental activities which the two nations' budgets do not contain. In France, the means of financing the loi de finances is not in the document as it is in the United States. In addition, there are many more accounts outside the finance law which relate receipts and expenditures of governmental services. These are, mainly, accounts of public establishments which are either administrative, industrial or commercial in nature, which have been given a legal and financial autonomy from the State. Examples of the first type can be found in the areas of teaching, research and professional organizations: Universities, the National Center for Scientific Research and the National School of Administration. The second type of public enterprise excluded, uses the privileges of the public powers either to intervene in particular sectors or to perform coordinating actions: the National Office of Forests and the National Center of Spatial Studies are two such exclusions along with the social security system which, for many programs, is financed by extra-budgetary receipts. Lastly, there are many State enterprises which are subject to private law and, therefore, are not regulated by public accounting. These are the large nationalized companies such as Régie Renault and the banks and insurance companies.[384]

Why does this "debudgetization" occur? It has been used in both the Fourth and the Fifth Republics as a way to safeguard the accounting equilibrium of the budget. Since 1958, however, it has been used as well

[384] Lequéret, p. 12; Trotabas, p. 113; Pallez, p. 16.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

to lighten the load of the Treasury and just to make the budget look better.[385] A similar reason has been claimed for "debudgetization" in the United States, also. The major portion of nonbudget spending here, is done by agencies that are privately owned but have been set up by the Government to perform specialized functions. These agencies include, other than the Federal Reserve Banks, the Federal Home Loan Banks and the Federal Land Banks, both removed from the budget in 1952, the Federal National Mortgage Association, the Banks for Cooperatives and the Federal Intermediate Credit Banks, removed from the budget in 1969, and the Student Loan Marketing Association and Federal Home Loan Mortgage Corporation, which have been outside the budget since their recent beginnings. The agencies which are federally owned and controlled but operate outside the budget include the Export Import Bank which was removed from the budget in 1971, (but returned to budget in 1976). Some other agencies removed after that date are the Rural Telephone Bank, the Rural Electrification Administration and the U.S. Postal Service. Most of the nonbudget spending involved is done by the first type of agency, the privately owned agencies, and consists of loans to companies and individuals. However, we should recall, also, that some U.S. nonbudget spending does occur as an offset to "proprietary receipts," which, since 1970, is included in a special table in the budget.[386]

---

[385] Jean-Pierre Duprat, "La Debudgetisation," Révue de Science financière No. 1, (janv.-mars. 1972): 69-161.

[386] U.S. News and World Report, "Outlays Outside the Budget - Now at 15.6 Billions," U.S. News & World Report, (25 Feb. 19 74): 76-78; also, see further discussion in Chap. 14.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Tax Expenditures

Finally, one last important group of expenditures, not included either in the French or the U.S. budget (before the new Budget Act), is the so-called category of "tax expenditures." These expenditures have been recognized,[387] only recently, as an important addition to total expenditures and deserving of special attention in the United States Budget process. As a matter of fact, controversy over tax expenditures or, what they were originally called, tax "subsidies" in 1970-1971, lead to the Congressional requirement that the U.S. Treasury make public each year estimates of the amounts of taxes lost to the Government through these practices. In the year ending 30 June 1971, the U.S. Treasury reported forty billion dollars worth of tax "subsidies."[388]

Murray Weidenbaum, writing in 1973,[389] described the reason for tax "subsidies" in the personal deductions from the individual income tax. These "subsidies" including State and local taxes, charitable contributions, and interest on mortgages on owner-occupied homes are used, claimed Weidenbaum, to promote horizontal equity. The same opinion was expressed previously by Dan Throop Smith in 1961 and the Joint Economic Committee in 1960.[390] Weidenbaum has objected to tax subsidies primarily

---

[387] See below, Chapter 14.

[388] U.S. News & World Report, "where 40 billions in 'Tax Subsidies' Go," U.S. News & World Report, (27 Dec. 1971): 29.

[389] Murray Weidenbaum, Don Laskins, Philip N. Marcus, Matching Needs and Resources, (Wash. D.C.: American Enterprise Inst. for Public Policy Research, 1973).

[390] Dan Throop Smith, Federal Tax Reform, the Issues and a Program, (New York: McGraw-Hill Book Co., Inc.)1961, p. 90 and U.S. Congress J.E.C. "Subsidy and Subsidy-like Programs of the U.S. Government" Materials prepared for the J.E.C. Congress of the U.S., Joint Comm. Pr. 86th Cong. 2nd Session.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

on the grounds that they are basically regressive because the value of the deduction increases with the increase in the income of the taxpayer and his high marginal tax bracket. Although, Weidenbaum considered the alternative of shifting from indirect subsidization to direct subsidization, he rejected the idea. He suggested that the implication of the move on private institutions might be profound and, possibly, more expensive. Literally, private institutions who are directly subsidized would appear in the budget. Instead, Weidenbaum proposed the substitution of a tax credit for the tax deduction. A tax credit, if stated as a fixed percentage, would not be regressive because regardless of one's income bracket, one's tax liability is reduced by the same percentage of given dollars only.[391]

Nevertheless, we remain with tax expenditures as tax deductions up to the present time. Appreciation for the mounting difficulties in their calculation can best be observed by a study of "Special Analysis F," Tax Expenditures" of the U.S. Budget for Fiscal Year 1977.[392] Here, attention is drawn to the necessity and complexity of defining the "normal structure" of the individual and corporate income tax which is not fully described in the code. Further examination of these difficulties and other problems associated with the declaration of tax expenditures required by the new Congressional Budget Act is postponed until Chapter 14.

Role of the Income Taxes

We, in the United States, have been so long accustomed to the idea of the income tax as a major revenue source for the Federal Government, that it may be difficult to picture a system in which this statement

---

[391] Weidenbaum, p. 123.

[392] U.S. Office of Management and Budget, Special Analyses, Budget of the U.S. Government Fiscal Year 1977, Special Analysis F, "Tax Expenditures," pp. 116-137.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

is not valid. In France, it has never been the major source of revenue for the Government though it has increased relative to total fiscal collections. Income taxes represented 18.2 percent of total revenues in France in 1918, as compared with 36.2 percent in 1969.[393] In the United States, income taxes represented just under 50 percent as early as 1925, and had reached 65 percent by 1969.[394] Actually, the adoption of the income tax in the United States had been delayed until the Tariff Act of 1913 because of the need of a constitutional amendment to revise the original constitutional requirement that "No Capitation, or other direct, Tax shall be laid, unless in Proportion to the Census or Enumeration."[395]

Direct and Indirect Taxes, 1951-1971

A comparative series of total budgetary receipts in the United States and France collected in direct and indirect taxes from 1951 to 1971 appears in Table 6 on the next page.[396] The proportions of these

---

[393]Trotabas with Cotteret, p. 325, cites the 1918 figures from l'inventaire Clementel de 1924 and 1969 figures from J.O. Doc. A.N., (17 juin 1969), p. 209.

[394]Calculations made from U.S. Budget F.Y. 1969, p. 539.

[395]U.S. Constitution, art. I, sec. 9, rev. by amendment 16.

[396]Direct taxes in France include: "impôts perçus par voie de roles" (individual income taxes), "impôts sur les sociétés" (corporation income taxes),"taxes sur les salaires"(employment taxes),"impôts sur le revenue des capitaux mobiliers" (taxes on income from stocks) "autres impôts directs" (other direct taxes). In the United States, direct taxes include: individual income taxes, corporate income taxes, employment taxes, estate and gift taxes.

Indirect taxes in France include: "enregistrement," (licenses), "timbre" (stamp), "bourse" (stock market), "impôts sur les produits pétroliers" (taxes on petroleum products), "produit des douanes" (customs duties), "T.V.A et T.P.S." (value added and production taxes), "avant 1953 taxes sur le chiffre d'affaires et taxes sur les transactions," before 1953 taxes on gross receipts and transaction taxes, "autres impôts indirects," other indirect taxes. In the United States, indirect taxes include: excise taxes and customs duties.

Miscellaneous taxes in France include: diverse fiscal taxes and

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE

COMPARATIVE DATA ON BUDGETARY RECEIPTS

(Millions of Dollars

UNITED STATES

Year	Taxes		Receipts	
	Direct	Indirect	Miscellaneous	Global
1951	$ 36,791	$ 9,157	$ 1,620	$ 47,568
2	50,213	9,384	1,794	61,391
3	52,502	10,464	1,859	64,825
4	51,859	10,487	2,309	64,655
5	48,112	9,716	2,562	60,390
6	54,550	10,611	3,004	68,165
7	58,479	9,790	2,760	71,029
8	64,815	11,419	3,383	79,617
9	64,182	11,503	3,363	79,048
60	75,064	12,781	4,636	92,481
1	76,868	12,842	4,683	94,393
2	80,945	13,676	5,035	99,656
3	86,080	14,400	6,098	106,578
4	91,542	14,983	6,177	112,702
5	94,328	16,012	6,515	116,855
6	109,247	14,828	6,826	130,901
7	126,298	15,620	7,673	149,591
8	129,665	16,117	7,889	153,671
9	161,654	17,541	8,589	187,784
70	166,019	18,135	9,589	193,743
1	158,450	19,205	10,737	188,392

SOURCES: U.S. President, Bureau of Budget, "Special Analysis K", U.S. Budget for Fiscal Year 1959 for years 1951-1957, p. 954; U.S. Budget for Fiscal Year 1969, Table 16, p. 539 for years 1958-1967; Office of Management and Budget, U.S. Budget for Fiscal Year 1973, Table 18, for years 1968-1971, pp. 544-545.

NOTES: Administrative budget is used up to 1958 and the unified budget, thereafter. See text description of categories of receipts. Global receipts include direct and indirect taxes and miscellaneous.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

6

IN FRANCE AND THE UNITED STATES 1951-1971

and Millions of Francs)

F R A N C E

Year	Taxes		Receipts	
	Direct	Indirect	Miscellaneous	Global
1951	$ 6,787	$ 14,541	$ 5,976	$ 27,304
2	8,112	16,995	7,853	32,960
3	9,554	17,434	11,100	38,088
4	9,507	18,532	9,377	37,416
5	9,748	19,454	6,756	35,958
6	11,484	20,904	7,665	40,053
7	13,530	24,866	6,813	45,209
8	17,479	28,493	7,132	53,104
9	19,377	32,786	6,980	59,143
60	20,617	35,609	6,763	62,989
1	22,185	39,383	7,463	69,031
2	23,590	44,080	7,990	75,660
3	26,332	50,126	10,255	86,713
4	31,219	56,106	9,544	96,869
5	34,628	58,972	10,640	104,240
6	36,488	64,328	9,467	110,283
7	39,489	68,213	10,924	118,626
8	37,414	77,651	12,632	127,697
9	45,385	98,441	5,934	149,760
70	52,509	104,703	7,589	164,801
1	54,001	116,258	3,075	173,334

SOURCES: France, Ministère de l'économie et des finances, "Évolution du budget de l'état de 1947 à 1972, S.E.F. 26e année, numéro spécial (1974). See Table 26 for direct and indirect taxes, pp. 35-36 and Table 22 for global receipts, p. 31.

NOTES: Beginning in 1969, French global receipts include collections made for local departments and communes of 7,580 m.f. in 1969, 9.410 m.f. in 1970, and 10,915 m.f. in 1971 plus 1,254 to the profit of cee.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

categories in total budgetary receipts may be found in Table 7 on the following page. The direct taxes include the income taxes on individuals and legal entities, in both countries. Indirect taxes follow the French legal definition of them whereby they are defined as a tax which is collected by a distince fiscal regime from the service of direct contributions without establishment of a nominative vote. It is the absence of "role" which characterizes the indirect tax. The role, itself, is an administrative act by which the fiscal authority decides for a designated taxpayer, the elements of the seat, the liquidation and the payment of the tax.[397]

The terms 'direct' and 'indirect' tax were first developed," according to William J. Shultz and C. Lowell Harriss,[398]" by the Physiocrats- direct tax for nonshifted taxes, indirect for shifted taxes. Adam Smith used the terms loosely according to distinctions in assessment methods- direct for tax as assessed according to income of property, indirect for taxes assessed in proportion to expenditures. Subsequent writers have twisted and turned the words to a confusing variety of meanings, say Shultz and Harriss. "Some authors consider 'direct' taxes, the periodic taxes on persons or property, and 'indirect' taxes, the nonrepeated impositions on commodities. Other writers have used the terms to distinguish between taxes on objects as against taxes on events, between taxes on possession as against taxes on consumption, between taxes on production

parafiscal taxes, interest on loans, cooperative fund receipts, and American aid which continued until 1960. In the United States, miscellaneous receipts include among other diverse receipts, unemployment insurance and premiums for insurance and retirement.

[397] Trotabas, pp. 243-244.

[398] William J. Shultz and C. Lowell Harriss, American Public Finance, (Englewood Cliffs: Prentice-Hall, 1965), p. 142, footnote 3.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 7

COMPARATIVE DATA ON PERCENTAGE DISTRIBUTION OF BUDGETARY RECEIPTS IN FRANCE AND THE UNITED STATES 1951-1971

	UNITED STATES				FRANCE		
	Taxes		Rcpts.	Rcpts.	Taxes		Rcpts.
Year	Direct	Indirect	Misc.	Global	Direct	Indirect	Misc.
1951	77.3	19.3	3.4	100.0	24.9	53.3	21.8
2	81.8	15.3	2.9	100.0	24.6	51.6	23.8
3	81.0	16.1	2.9	100.0	25.1	45.8	29.1
4	80.2	16.2	3.6	100.0	25.4	49.5	25.1
5	79.7	16.1	4.2	100.0	27.1	54.1	18.8
6	80.0	15.6	4.4	100.0	28.7	52.2	19.1
7	82.3	13.8	3.9	100.0	29.9	55.0	15.1
8	81.4	14.3	4.3	100.0	32.9	53.7	13.4
9	81.2	14.6	4.2	100.0	32.8	55.4	11.8
60	81.2	13.8	5.0	100.0	32.7	56.5	10.8
1	81.4	13.6	5.0	100.0	32.1	57.1	10.8
2	81.2	13.7	5.1	100.0	31.2	58.3	10.5
3	80.8	13.5	5.7	100.0	30.4	57.8	11.8
4	81.2	13.3	5.5	100.0	32.2	57.9	9.9
5	80.7	13.7	5.6	100.0	33.2	56.6	10.2
6	83.5	11.3	5.2	100.0	33.1	58.3	8.6
7	84.4	10.4	5.2	100.0	33.3	57.5	9.2
8	84.4	10.5	5.1	100.0	29.3	60.8	9.9
9	86.1	9.3	4.6	100.0	30.3	65.7	4.0
70	85.7	9.4	4.9	100.0	31.9	63.5	4.6
1	84.1	10.2	5.7	100.0	31.2	67.1	1.7

SOURCE: See above, Table 6.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

as against taxes on expenditure."[399]

The United Nations Department of Economic Affairs, on the other hand, differentiated between the two types of taxes on the basis of "those lines which directly affect relative prices and those which do not." "A measure of the volume of interest taxes is the difference between national income calculated at factor cost."[400]

Shultz and Harriss inform us that "American law uses the two terms in a special sense divorced from all economic considerations. Such confused and contradictory usage," claims Shulz and Harriss, "has robbed the terms, direct and indirect, of any value they might possibly have had in fiscal economics."[401] In spite of these opinions, the classification system is still used. In France, within the indirect tax category are included along with the tax on value added, T.V.A., or the former production and transaction taxes, T.P.A., specific taxes on wines and meats, customs duties, taxes on petroleum products, stamp taxes, and so forth. Since 1947, the entire category of indirect taxes, in France, has never fallen below 60 percent of total fiscal receipts or 51 percent of total budgetary receipts. One can see from Table 7, also, that the share of these taxes has been rising again since 1965 and reached their highest point in the last year of the table, 67.9 percent in 1971. Of course, as the relative share of the indirect taxes has increased so the direct taxes have represented a declining portion of total French budgetary receipts.

The French Value Added Tax, 1958-1971

Thus, even though it had been anticipated that income taxes in France would eventually become the principal source of revenue,[402] it is

---

[399] Ibid. [400] United Nations, p. 22.

[401] Shultz and Harriss, p. 142. [402] Baum, p. 131.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

obvious from the table that the event has not occurred. On the contrary, the production tax or what is now the tax on value added has become the keystone of the French tax system. Since 1947, one or the other has ranged from a low of 31.8 percent of total fiscal receipts in 1958 to a high point of 47.9 percent in 1971. Actually, the switch to the tax on value added was completed during the years 1953 to 1955.[403] During the period, not only was the T.V.A. substituted for the production tax, but the transaction tax was abandoned, the services tax was integrated with value added tax while the local tax was modified "to lessen the degree of multiple application." All in all, "In the period between September of 1953 and July of 1955, the French sales tax system underwent drastic modification, all segments of the system being altered."[404]

From Table 8 below, one can see the steady growth in the T.V.A. as a proportion of indirect taxes, particularly in the 1960's.

Table 8

TAX ON VALUE ADDED AS PROPORTION OF FRENCH INDIRECT TAXES 1958-1971

Year	%	Year	%
1958	53.7	1965	57.5
1959	53.5	1966	59.1
1960	54.9	1967	59.2
1961	53.4	1968	65.9
1962	55.2	1969	69.6
1963	56.5	1970	68.6
1964	57.4	1971	70.6

Source: Ministère de l'Économie et des Finances, "Évolution du Budget de l'Etat de 1974 a 1972," S.E.F., numéro spécial, 26 année (1974): 31 & 35.

[403] France, Ministère de Finances, "Annuaire de statisques financères 1930-1959, S.E.F., N°. 144, (Dec. 1960), p. 1823.

[404] John F. Due, Sales Taxation, (Urbana: University of Illinois Press, 1957), p. 124.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

The U.S. Employment and Income Taxes, 1958-1971

In the United States, which has no tax equivalent to the T.V.A. in the Federal revenue system, the only tax approximating the rate of growth of that tax over an extended period has been the employment taxes which finance social security and other trust fund programs. It must be noted, however, that the Social Security System is not a part of the French loi de finances so that its comparable tax collections are not included here. There is an employment tax or, rather, an employers' tax on payrolls which is included in the budget, but it is a relatively small revenue source and is not a social insurance tax. It was instituted in 1949 as a temporary measure to prevent a demand for further wage increases. The employer paid a 5 percent payroll tax on wages and salaries, and wages were not to be reduced because of it.[405]

The rate of growth in the employment taxes as a proportion of total budgetary receipts and their annual share of total budgetary receipts as compared to income taxes in the United States is illustrated below in Table 9.

Table 9

INDEX OF ANNUAL GROWTH IN EMPLOYMENT TAXES AS PROPORTION OF U.S. RECEIPTS AND RELATIVE SHARES OF EMPLOYMENT AND INCOME TAXES 1958-1971

Year	Index of Annual Growth Employment Taxes	Relative Shares Employment Taxes	Income taxes
1958		10.8	68.8
1959	103.7	11.2	68.3
1960	108.9	12.2	67.3
1961	109.8	13.4	66.0
1962	96.3	12.9	66.3
1963	107.0	13.8	64.9
1964	108.7	15.0	64.1
1965	99.9	14.9	63.5
1966	106.0	15.8	65.3
1967	117.7	18.6	63.8
1968	102.2	19.0	63.4
1969	95.8	18.2	66.0
1970	111.0	20.2	63.6
1971	109.4	22.1	60.0

Source: *U.S. Budget F.Y. 1969, p. 539 1973, pp. 544-545 for actual revenues collected.

[405] Baum, p. 139.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

By studying the annual growth and relative share of the employment taxes over the years, the reason for the growth of the relative share of direct taxes in total budgetary receipts of the United States becomes apparent. Better than three fourths of total receipts are represented by direct taxes for the entire period covered. Income taxes, however, have been slowly declining as a proportion of total budgetary receipts though they remain, as Table 7 and 9 indicate, the largest single source of Federal revenues.

These are the revenue sources which predominate under each of the two budgetary processes in spite of the fact, for example, that taxes on acquired capital are among the oldest elements in the French system and customs duties are in the United States. The relative shares of both these taxes in their respective budgets, has fallen drastically. In 1910, taxes on acquired capital in France represented almost 22 percent of total tax collections and, by 1969, only 4 percent.[406] Customs duties in the United States have an even poorer record; from the major source of revenue in the United States, it drew into the Treasury's coffers in 1969, barely 1.2 percent of total budgetary receipts.[407]

Trends in Budgetary Receipts, Outlays and Balances, 1921-1971

Even more interesting for our purposes than the examination of the relative shares of direct and indirect taxes in budgetary receipts, and the division of total outlays between military and civilian expenditures presented above, is the path of total outlays and receipts for each country over time and the resulting trend in budget balances or, rather, budget

---

[406] Trotabas, p. 325.

[407] U.S. Budget F.Y. 1969, computed from figures given on p. 539.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

imbalances. Tables 10, 11 and 12 trace the millions of dollars and the millions of francs collected in receipts, spent in outlays as well as the resulting surplus or deficit measured either absolutely or relatively as a share of outlays from 1921 to 1971.

In the fifty-one years covered in the three tables, France has achieved an actual surplus budget in only seven years. All of these years, except for the relatively small surplus which occurred in 1970, were more than forty years ago. In spite of the frequently expressed complaints in the United States concerning the increasing frequency and size of deficits in the U.S., (which led to the creation of the Joint Study Committee on Budget Control[408]), their number and their size, as a proportion of outlays is substantially smaller in the last twenty years than it was earlier. Furthermore, U.S. deficits have not shown any consistent tendency towards more frequent or larger relative deficits than formerly in the last two decades. Even when one includes the more recent fiscal years, 1972 to 1977, as in Table 13, the picture is not considerably changed. Though the deficits relative to total outlays are higher in the last three years then they have been, they are still less than one-half the size of those prevailing through most of the 30's and the 40's. In retrospect, there have been eighteen years of actual surpluses of which six occurred since 1951, though only one of these did happen since 1960. As far as the size of deficits increasing is concerned, the picture is somewhat more complicated according to whether one is concerned with dollar sums, dollar sums as a proportion of outlays, or dollar sums as a proportion of gross private domestic product or some other measure. A look as the U.S. dollar

---

[408] U.S. Congress, Joint Study Committee on Budget Control, Interim Report repr. in Improving Congressional Control... (22 Mar. 1973); p. 175.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE

COMPARATIVE DATA ON ACTUAL RECEIPTS, OUTLAYS, BUDGET BALANCES AND

FISCAL YEARS

UNITED STATES
(Money Amounts in Millions of Dollars)

Year	Receipts	Outlays	Surp.(+) or Def.(-)	Balance as % of Outlays(-)Surp.
1923	$ 5,567	$ 5,058	$ 509	- 10.1
2	4,021	3,258	736	- 22.6
3	3,849	3,137	713	- 22.7
4	3,853	2,890	963	- 33.3
5	3,598	2,881	717	- 24.9
6	3,753	2,888	865	- 30.0
7	3,992	2,837	1,155	- 40.7
8	3,872	2,933	939	- 32.0
9	3,861	3,127	734	- 23.5
30	4,058	3,320	738	- 22.2
1	3,116	3,577	- 462	12.9
2	1,924	4,659	-2,735	58.7
3	1,997	4,598	-2,602	56.6
4	3,015	6,645	-3,630	54.6
5	3,706	6,497	-2,791	43.0
6	3,997	8,422	-4,425	52.5
7	4,956	7,733	-2,777	35.9
8	5,588	6,765	-1,177	17.4
9	4,979	8,841	-3,862	34.1

SOURCE: U.S. President, Bureau of Budget, U.S. Budget for Fiscal Year 1969, Table 19, p. 542.

NOTE: Balance as % of outlays have been computed here.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

10

BUDGET BALANCES AS PERCENTAGE OF OUTLAYS IN FRANCE AND UNITED STATES

1921-1939

F R A N C E
(Money Amounts in Millions of Francs)

Year	Receipts	Outlays	Surp.(+) or Def.(-)	Balance as % of Outlays(-)Surp.
1921	231.2f	264.1f	- 32.9	12.5
2	238.9	267.6	- 28.7	10.7
3	262.2	256.5	5.7	- 2.2
4	305.7	274.9	30.8	- 11.2
5	347.7	362.8	- 15.1	4.2
6	430.6	419.8	10.9	- 2.6
7	460.9	453.6	7.3	- 1.6
8	481.8	442.5	39.3	- 8.9
9	642.7	588.5	54.2	- 9.2
30	507.9	557.1	- 49.1	8.8
1	479.4	534.3	- 54.8	10.3
2	360.4	406.7	- 46.3	11.4
3	434.4	549.5	- 115.1	20.9
4	410.7	498.8	- 88.1	17.7
5	394.9	498.7	- 103.8	20.8
6	388.9	557.9	- 169.0	30.3
7	444.5	656.5	- 211.9	32.3
8	546.5	823.4	- 276.9	33.6
9	633.5	1,501.2	- 867.6	57.8

SOURCE: France, Ministère des Finances du Budget et des Affaires Économiques, Inventaire de la situation financière. Mise à jour en 1951 de l'Inventaire de 1946 (Paris: Imprimerie Nationale, 1951).

NOTE: Figures are adjusted to millions of new current francs. Balance as % of outlays have been computed here.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE

COMPARATIVE DATA ON ACTUAL RECEIPTS, OUTLAYS, BUDGET BALANCES AND

FISCAL YEARS

UNITED STATES

(Money Amounts in Millions of Dollars)

Year	Receipts	Outlays	Surp.(+) or Def.(-)	Balance as % of Outlays(-)Surp.
1940	$ 5,137	$ 9,055	$ - 3,918	43.3
1	7,096	13,255	- 6,195	46.7
2	12,547	34,037	- 21,490	63.1
3	21,947	79,368	- 57,420	72.3
4	43,563	94,986	- 51,423	54.1
5	44,362	98,303	- 53,941	54.9
6	39,650	60,326	- 20,676	34.3
7	39,677	38,923	754	- 1.9
8	41,375	32,955	8,419	- 25.5
9	37,663	39,474	- 1,811	4.6
50	36,422	39,544	- 3,122	7.9

SOURCE: U.S., President, Bureau of Budget, U.S. Budget for Fiscal Year 1969, Table 19, p. 542.

NOTE: Balance as % of outlays have been computed here.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

11

BUDGET BALANCES AS PERCENTAGE OF OUTLAYS IN FRANCE AND UNITED STATES

1940-1950

F R A N C E

(Money Amounts in Millions of Francs)

Year	Receipts	Outlays	Surp.(+) or Def.(-)	Balance as % of Outlays(-)Surp.
1940	730f	3,050f	- 2,320f	76.1
1	790	2,680	- 1,890	70.5
2	1,000	2,930	- 1,930	65.9
3	1,210	4,180	- 2,970	71.1
4	1,230	3,640	- 2,410	66.2
5	2,240	4,540	- 2,300	50.7
6	4,270	6,460	- 2,190	33.9
7	6,590	8,160	- 1,570	19.2
8	11,720	14,690	- 2,970	20.2
9	17,700	20,340	- 2,640	13.0
50	20,770	23,170	- 2,400	10.4

SOURCE: France, Ministère des Finances, "Annuaire 1930-1959", Statistiques et études financières, 12e année, no. 144 (Dec. 1960): 1934-1935.

NOTE: Special Accounts of the Treasury are not included here as in years before (Table 10). Balance as % of Outlays have been computed here.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE

COMPARATIVE DATA ON ACTUAL RECEIPTS, OUTLAYS, BUDGET BALANCES AND

FISCAL YEARS

UNITED STATES
(Money Amounts in Millions of Dollars)

Year	Receipts	Outlays	Surp.(+) or Def.(-)	Balance as % of Outlays(-)Surp.
1951	$ 53,390	$ 45,797	$ 7,593	- 16.6
2	68,011	67,962	49	- 0.1
3	71,495	76,769	- 5,274	6.9
4	69,719	70,890	- 1,170	1.7
5	65,469	68,509	- 3,041	4.4
6	74,547	70,460	4,087	- 5.8
7	79,990	76,741	3,249	- 4.2
8	79,636	82,575	- 2,939	3.6
9	79,249	92,104	-12,855	14.0
60	92,492	92,223	269	- 0.3
1	94,389	97,795	- 3,406	3.5
2	99,676	106,813	- 7,137	6.7
3	106,560	111,311	- 4,751	4.3
4	112,662	118,584	- 5,922	5.0
5	116,833	118,430	- 1,596	1.3
6	130,856	134,652	- 3,796	2.8
7	149,552	158,254	- 8,702	5.5
8	153,671	178,833	-25,161	14.1
9	187,784	184,548	3,236	- 1.8
70	193,743	196,588	- 2,845	1.4
1	188,392	211,425	-23,033	10.9

SOURCE: U.S. President, Office of Management and Budget, U.S. Budget for Fiscal Year 1973, Table 22, p.553.

NOTES: The administrative budget is employed for fiscal years 1951-1953, and the unified budget, thereafter. Balance as % of Outlays have been computed here.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

12

BUDGET BALANCES AS PERCENTAGE OF OUTLAYS IN FRANCE AND UNITED STATES

1951-1971

FRANCE
(Money Amounts in Millions of Francs)

Year	Receipts	Outlays	Surp.(+) or Def.(-)	Balance as % of Outlays(-)Surp.
1951	27,304f	31,760f	- 4,456	14.0
2	32,960	40,021	- 7,061	17.6
3	38,088	44,568	- 6,480	14.5
4	37,416	43,129	- 5,713	13.2
5	35,958	42,221	- 6,263	14.8
6	40,053	49,408	- 9,355	18.9
7	45,209	55,394	- 10,185	18.4
8	53,104	57,441	- 4,337	7.6
9	59,143	64,644	- 5,501	8.5
60	62,989	67,816	- 4,827	7.1
1	69,031	73,781	- 4,750	6.4
2	75,660	83,197	- 7,537	9.1
3	86,713	93,254	- 6,541	7.0
4	96,869	97,645	- 776	0.8
5	104,240	104,378	- 138	0.1
6	110,283	114,378	- 4,095	3.6
7	118,626	125,031	- 6,405	5.1
8	127,697	139,108	- 11,411	8.2
9	149,760	151,129	- 1,369	0.9
70	164,801	164,236	565	- 0.3
1	173,334	175,087	- 1,753	1.0

SOURCE: France, Ministère de l'Économie et des Finances, "Évolution du budget de l'état de 1947 à 1972", S.E.F., 26e année, numéro spécial (1974), Table 1, p. 9.

NOTE: Balance as % of Outlays have been computed here.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

and the French franc amounts up to the end of World War II reveal a fairly steady increase in both nations in the size of deficits. There appears to be a precipitous drop in the values of deficits in 1947 for both nations, after which the United States imbalances exhibited erratic behavior in their values while French deficits increased up to 1958. After that time franc figures for balances are considerably less than previously, though outlays and receipts are obviously increasing.

Table 13

DATA ON ACTUAL RECEIPTS, OUTLAYS, BUDGET BALANCES AND BUDGET BALANCES AS PERCENT OF OUTLAYS IN UNITED STATES, FISCAL YEARS 1972-1977

(Millions of dollars)

YEAR	RECEIPTS	OUTLAYS	SURPLUS (+) or DEFICIT (-)	BALANCES AS % OF OUTLAYS SURPLUS (-)
1972	$208,649.	$231,876.	$23,227.	10.0
1973	232,225.	246,526.	14,301.	5.8
1974	264,932.	268,392.	3,460.	1.3
1975	280,997.	324,601.	43,604.	13.4
1976 est.	297,534.	373,535.	76,001.	20.3
TQ est.	81,894.	97,971.	16,077.	16.4
1977 est.	351,262.	394,237.	42,975.	10.9

Source: U.S. Budget Fiscal Year 1977. p. 368.

An important study by the National Bureau of Economic Research in 1960 was devoted to describing the cyclical behavior of Federal expenditures and cash receipts as well as their differences in the United States since 1879. It showed quantitatively the combined effect of such factors as the changing economic philosophy of Government and business conditions.[409]

[409] John M. Firestone, Federal Receipts and Expenditures during Business Cycles 1879-1958. A Study by the Bureau of Economic Research, (Princeton: Princeton University Press, 1960), p. 1.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

The basic data used are the "unrevised receipts and expenditures" derived from the Daily Treasury Statement through fiscal 1942, "current cash basis" through fiscal 1947, and "Daily Treasury Statement basis" since 1948. These figures are the only monthly series available back to 1879. They exclude the trust accounts but differ from the administrative budget in that they are on a cash basis.[410] The method of cyclical analysis used, according to the study, was that of Arthur Burns and Wesley C. Mitchell as described in "Measuring Business Cycles" (1947).

The NBER study adopted five separate time periods for analysis because of the Korean and two world wars: (1) 1879-1914, (2) 1921-1938, (3) war cycles - 1914-1919, 1938-1945, and 1949-1954, (4) two post war cycles - 1919-1921 and 1945-1948, and (5) 1954-1958. In the findings of this study, the cyclical behavior of (1), (2) and (5) were found to be substantially similar. Cash surpluses occurred in times of prosperity and cash deficits in times of depression. As business expanded, net surpluses increased primarily because of the cyclical rise of revenues. The reverse occurred as business declined. These occurrences were not because of any counter-cyclical changes in expenditures. The adoption of the income tax increased these cyclical swings emphasizing the built-in stabilizing influence of progressive taxes. Expenditures, on the other hand, showed no systematic relationship to most most war business cycles. "Expenditures have typically risen during recession and recovery alike."[411]

During the three war cycles, the pattern of Federal surplus or deficit moved opposite to the peacetime pattern. Here, expenditures did rise and fall with the business cycle by more than the changes in revenues.

---

[410] Ibid., p. 3.

[411] Ibid., p. 9.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Surpluses and deficits display a positive conformity to both post war cycles, similar to the pattern of other peacetime cycles. However, the reason for the conformity differs. Both expenditures and receipts played a role in the change in the deficit or surplus contrary to the prior dominant role of receipts alone. In fact, revenues "remained roughly stable during the business expansions but declined during the contractions, thereby exhibiting a mild degree of positive conformity."[412]

The behavior of dollar and franc sums is not the entire story as one can see by viewing the balances expressed as a proportion of outlays. In the period from 1951 to 1971, when deficits are declining as a percentage of outlays in France, coinciding with discussions on the new budgetary presentation, the average annual proportion of outlays represented by the deficit is 8.4 percent in France compared to only 2.7 percent in the United States. However, one should observe that for the last ten years of the period, the positions are reversed. The average annual proportion of outlays represented by the deficit is reduced now to 2.7 percent in France, and raised to 5.3 percent in the United States. This last figure for the U.S. rises with the addition of the more recent years listed in Table 13 above.

Additionally, a more dramatic illustration of the path of comparitive balances is revealed by Table 14 which is, also, diagrammed in Figure 5. Both Table 14 and Firgure 5 analyze the same data on outlays, receipts and balances, but now as a proportion of gross private domestic product. Gross Private Domestic Product, G.P.D.P., was chosen rather than figures which include the public sector for two reasons: (1) comparable French data were more readily accessible, and (2) elimination of

---

[412] Ibid.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 14

COMPARATIVE DATA ON OUTLAYS, RECEIPTS, AND BALANCES AS PERCENTAGES OF GROSS PRIVATE DOMESTIC PRODUCT FOR THE UNITED STATES AND FRANCE

1951-1971

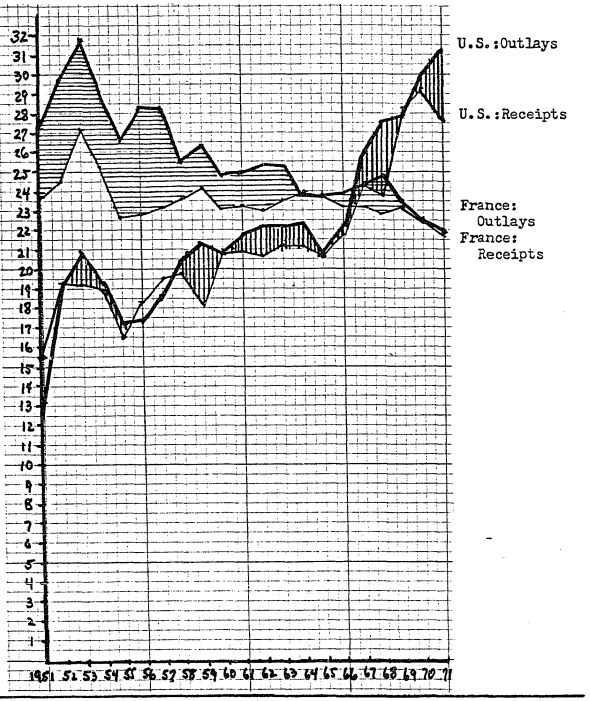
	OUTLAYS		RECEIPTS		BALANCES	
Year	U. S.	France	U. S.	France	U. S.	France
1951	13.3	27.7	15.5	23.8	2.2*	3.9
2	19.2	29.8	19.3	24.5	0*	5.3
3	20.7	31.8	19.3	27.2	1.4	4.6
4	19.4	29.1	19.0	25.3	0.3	3.9
5	17.2	26.6	16.5	22.7	0.8	4.0
6	17.4	28.3	18.4	22.9	1.0*	5.4
7	18.7	28.2	19.5	23.1	0.8*	5.2
8	20.4	25.5	19.7	23.6	0.7	1.9
9	21.3	26.4	18.3	24.2	3.0	2.3
60	20.8	24.9	20.8	23.2	0*	1.8
1	21.6	25.0	20.9	23.4	0.8	1.6
2	22.1	25.3	20.6	23.0	1.5	2.3
3	22.1	25.3	21.2	23.5	0.9	1.8
4	22.3	23.9	21.2	23.7	1.1	0.2
5	20.9	23.8	20.6	23.8	0.3	0
6	22.3	23.9	21.7	23.1	0.6	0.9
7	25.6	24.2	24.2	23.1	1.4	1.2
8	27.6	24.8	23.8	22.9	3.9	2.0
9	27.8	23.5	28.3	23.3	0.5*	0.2
70	29.8	22.5	29.4	22.5	0.4	0.1*
1	31.2	22.0	27.8	21.7	3.4	0.2

SOURCES: See above, Tables 1 and 12.

* Surplus.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Figure 5. Comparative analysis of outlays, receipts, and balances as percentage of gross private domestic product for United States and France: 1951-1971.



SOURCE: Table 14.

Legend:

U.S. Outlays
U.S. Receipts
} Deficit

France: Outlays
France: Receipts
} Deficit

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

the public sector from the base may be more expressive of prevailing economic conditions. Clearly, the proportion of all three categories of the budget has steadily declined for France and, equally clearly, the proportions of outlays and receipts of the budget have steadily increased in the United States. These figures for France do not include certain autonomous public enterprises such as the universities, the social security system, many large nationalized companies nor the departments and communes. Eliminating the trust funds from the U.S. figures does make some difference in this picture particularly up to 1966. Using the "Administrative" budget figures over the period, receipts and outlays hovered around 16 to 18 percent of G.P.D.P. However, after 1966, both receipts and outlays began the rise described here so that the Federal and trust funds and total outlays all increased as a proportion of private sector output.

Table 15, below, reveals the unified budget figures for the years from 1972 to 1975. However, the table is not directly comparable to Table 14 because of the recent substitution by the Council of Economic Advisers of the prices of 1972 instead of those of 1958.

Table 15

DATA ON OUTLAYS, RECEIPTS AND BALANCES
AS PERCENTAGES OF GROSS PRIVATE
DOMESTIC PRODUCT FOR U.S. FISCAL YEARS 1972-1975

YEAR	OUTLAYS	RECEIPTS	BALANCES	(billions of $) G.P.D.P.
1972	22.6	20.3	2.3	$1,026.7
1973	22.7	21.4	1.3	1,087.0
1974	25.2	24.8	0	1,062.9
1975	31.3	27.1	4.2	1,036.5

Source: Table 13, Table 1 and Economic Report of the President transmitted to Congress January 1976, p. 179. GPDP figures are in 1972 dollars.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

In conclusion, the point to be stressed is the fact that budget balances must be interpreted not simply by themselves, but within the framework of the budget, its objectives, and the economy as a whole. As a practical example of possible difficulties in not doing so, Table 16 clearly pictures both receipts and outlays in France for the 1951 to 1971 period enjoying a higher average annual rate of growth than in the United States. Yet, the difference between the average annual index of growth for receipts in France, 109.9, and outlays, 109.1 is less than that for the United States whose figures are, respectively, 106.8 and 108.4. This information is not apparent from the previous comparisons except for the table and figure describing balances as a proportion of G.P.D.P. (Table 14 and Figure 5). One final interesting observation on the trend of the budget in the two nations is the identifiable synchronization of the patterns of growth in both receipts and outlays (though the swings appear more exaggerated in the U.S.), including the major period of nongrowth, 1953 to 1956.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 16

COMPARATIVE DATA ON INDEXES OF ANNUAL GROWTH OF RECEIPTS AND OUTLAYS

IN THE UNITED STATES AND FRANCE - FISCAL YEARS 1952-1971

	UNITED STATES		FRANCE	
Year	Receipts	Outlays	Receipts	Outlays
1952	127.4	148.4	120.7	126.0
3	105.1	113.0	115.6	111.4
4	97.5	92.3	98.2	96.8
5	93.9	96.4	96.1	97.9
6	113.9	102.8	111.4	117.0
7	107.3	108.9	112.9	112.1
8	99.6	107.6	117.5	103.7
9	99.5	111.5	111.4	112.5
60	116.7	100.1	106.5	104.9
1	102.1	106.0	109.6	108.8
2	105.6	109.2	109.6	112.8
3	106.9	104.2	114.6	112.1
4	105.7	106.5	111.7	104.7
5	103.7	99.9	107.6	106.9
6	112.0	113.7	105.8	109.6
7	114.3	117.5	107.6	109.3
8	102.8	113.0	107.6	111.3
9	122.2	103.2	117.3	108.6
70	103.2	106.5	110.0	108.7
1	97.2	107.5	106.0	106.6
Mean	106.8	108.4	109.9	109.1

SOURCE: See above, Table 6.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

PART III

THE BUDGET AND THE BUDGETARY PROCESS

IN ACTION

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

CHAPTER 8

THE EXECUTIVE PREPARATION

Introduction to Part III

This chapter, "The Executive Preparation," and the three which follow it, compose Part III, "The Budget and the Budgetary Process in Action." Each chapter concentrates on one of the four phases of the "budget cycle" and discusses the procedures and the role of the various participants therein. The four phases are distinguished in both systems as: preparation, authorization, execution and, finally, audit and review. Chapter 8, the present one, explains and comments upon the first phase of the cycle which includes both global and detailed preparatory information gathering and decision making in the French and the U.S. budgetary processes. The respective roles of the budget bureaus and the particular emphasis of each nation's bureau on short term versus long term policy planning is indicated.

"The Legislative Vote," which is the subject matter of Chapter 9, compares the general responsibilities of the French Parliament to those of the United States Congress. In addition, it describes the organization of the two nation's bicameral legislatures and their powers and procedures of decision relative to each other and to their respective Executive branches. Similarities and differences in the general presentation of the financial and economic policy of Government are silhouetted against the backdrop of

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

the French centralized authority as opposed to the U.S. decentralized authority. There is some discussion here, also, of the fundamental variations in the time framework of the budget along with the quantitative evidence of the less than annual nature of the budget in both nations.

Part of the key to the increased efficiency, effectiveness and improved character of the budgetary process may well rest in a concerned appraisal of the execution phase. In fact, Louis Fisher, in his recently published book called, "Presidential Spending Power," comments that we are so fascinated with how Congress goes about the appropriations process that, "What happens later -- the actual spending of money -- rarely commands our attention."[413] Chapter 10, "The Execution," considers administrative controls and procedures, compares technical and forecasting errors during the fiscal years in absolute and relative terms, and contrasts Executive spending discretion in the two systems.

The final phase of the budget cycle, "Audit and Review," is the topic discussed in Chapter 11. The phase may be described as the least developed in terms of the adoption of modern techniques of organization and procedures in the entire budgetary process. In France, on the one hand, the budget is audited and reviewed effectively in recent years, but the information and suggestions derived therefrom have not been employed consistently by the legislature. In the United States, on the other hand, the budget is not audited and reviewed effectively as a whole, thus no information or suggestions are forthcoming here, but the legislature has been stirred to seek radical changes in the approach to budgeting and the decision making process for the earlier phases of the cycle.

---

[413] Louis Fisher, Presidential Spending Power, (Princeton: Princeton University Press, 1975), p. 3.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Overview of Chapter 8

The preparation phase of the budgetary process in both countries has been for many years a task for the Executive Branch, primarily. This chapter analyzes and compares the content, the direction and the time-path of flows of information necessary for the formulation of the Budget. After some comparisons concerning the origins of the budget cycle and the respective roles of the Executive and Legislature in each country, the preparatory work of the French spending ministries and the U.S. Government agencies are examined.

Origins of the Budget Cycle

To begin, however, with the Executive preparation of the Budget to be discussed in the present chapter, it is important to recognize at the outset a condition which exists during considerations of any facet of public sector behavior. The condition involves the everpresent interplay among those holding political power in that sphere. One economist has claimed that "Government budgeting, in its procedural aspects and time dimensions expresses a pattern of responsibility derived from political power relationships."[414] Admittedly, the responsibility function differs in the Presidential as opposed to the Parliamentary systems under discussion, but the view of Government budgeting expressed is common to both systems. The notion of the budget, itself, initially appeared as a means of assuring control of Government by Parliament.[415] Even one step beyond this statement is the notion that a good budgetary procedure constitutes a guarantee against the abuse of power.[416] In fact, the French

[414] Burkhead, p. 83.

[415] Ibid.; Duverger, Finances publiques, p. 251. [416] Rivoli, p. 18.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

were so attuned to this aspect of the problem that, as we have seen, part of the dispositions about budgetary procedure are inscribed in the Constitution.

The present Federal budgetary process in the United States, however, was basically designed by the Budget and Accounting Act of 1921. In France, the process rests upon foundations laid by the Constitution of 1958 and, then, further amplified by the Ordonnance of 1959. Responsibility for the budget, including its preparation, approval and control, is in the hands of three partners in the process: the Ministries, the Government and the Parliament.[417] In the United States, from an organizational standpoint, the interplay is "between staff and line agencies, and between those who must provide Executive leadership and those who must provide legislative leadership."[418] This partnership or interplay between the actors in the budget process or budget cycle has served to underscore the patterns of responsibility in this process. The patterns are intimately related to the time dimension of budgeting. The French system places heavy emphasis on the old French budgetary law which says that the budget should be annual. This means that the services of the State must be authorized each year to be engaged towards third parties, though it does not mean that the horizon of the budget is limited to one year. In fact, budgetary forecasts in the framework of the Plan, which is for five years, bear more on two year horizons. Thus, with budgetary preparations necessary of one year's time, budgetary sketches must have a horizon of three years.[419]

---

[417] Ibid.; Lequéret, p. 27. [418] Burkhead, p. 86.

[419] Lequéret, p. 27.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Actually, the idea of the budgetary process or budget cycle is to emphasize the periodicity of budgeting. Budgeting is, of course, a continuous process. "Budget-making is not, or at least should not be, an annual affair, attention to the budget and budgetary formulation should influence the day-to-day decisions of management at all levels. But at the same time, this continuity is marked by specific phases of a cyclical character."[420] As indicated, these phases have been identified as (1) Executive formulation and transmittal, (2) legislative authorization, (3) budget execution and control and (4) reports and audit, though the French tend to subsume phase (4) under the control of the budget.

The Roles of the Executive and the Legislature

In both countries, the preparation of the budget or phase (1) has been the province of the Executive Branch of Government. Nevertheless, preparation of the budget and the right to initiate a spending measure are treated differently in the two countries. The Executive budget in the U.S. system is likely to be considerably altered by Congress. "In fact, Congress has always guarded its budgetary authority, especially its 'taxing power' jealously."[421] In France, under the III Republic, both the deputies (not the senators) and Government had the right to propose the inscription of a new expenditure in the budget and this proposition could be adopted by a majority vote.[422]

However, since that time, there has been a progressive reduction

---

[420] Burkhead, p. 87.

[421] Herber, pp. 296-297.

[422] Barrère, I"106; Duverger, Finances publiques, p. 283.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

in the right of parliamentary initiative in France. The Constitution of 1946 conserved the principle but reduced its scope to only legislative texts other than the budget and loi de finances. Finally, article 40 of the Constitution of 1958 forbade any proposition or amendment which tended to create or aggravate a public charge. The rule was absolutely general and applied to all laws including the loi de finances.[423] The Ordonnance of 1959 then specified clearly that deputies could always propose limitations on, or reductions in, public expenditures but amendments to the loi de finances which tend to increase public expenditures are forbidden.[424]

Thus, there is a large difference with respect to the right of initiative in the United States as opposed to France. There has been, also, and will be again, a difference in the roles of the legislature and Executive branch in the preparation of the budget. It will be recalled that the Legislative Reorganization Act of 1946 established a "legislative budget" in its section 138. Though the process of "nullification" had clearly set in by 1948,[425] the passage of the Congressional Budget and Impoundment Control Act of 1974 reawakens this procedure in the United States.[426]

As for the Executive preparation of the budget in terms of time sequence and in terms of participants and their roles, there are significant differences between the two countries. In France the preparation of the budget is under the authority of the Prime Minister while, in the

---

[423] Duverger, p. 283.

[424] Barrère, I:107.

[424] Avery Leiserson, repr. in Improving Congressional Control of the Budget, (27 Mar. 1973), p. 524.

[426] See below, Chap. 14.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

U.S., that authority rests with the President. The French Minister of Economy and Finance, working under the authority of the Prime Minister, does not have the right to nullify the estimates of the various ministries for their proposed expenditures for the coming budget year. The spending ministers have the right to submit any disagreements to the Prime Minister who, in turn, brings it before the entire cabinet.[427] In the United States, on the other hand, the "President possesses authority, operating through OMB (the Office of Management and Budget) to reduce expenditure requests."[428]

According to the Ordonnance of 1959, the Prime Minister's function is to determine for the following year, the huge sums of civil and military expenditures and investments which will permit him to follow his national policy designs. This differs from the Organic Decree of 1956 which gave the Minister of Finance total responsibility in the financial domaine.[429] The Prime Minister's decisions are usually made during the month of April. However, the broad outline of the budget actually begins in January within the Ministry of Economy and Finance or exactly one year before it becomes effective. The budget administration, the cabinet of the ministry and the forecasting administration try to answer six questions which may be phrased as follows:

1. What goods and services should be distributed freely to and groups?
2. According to what techniques should they be produced?
3. What households and enterprises should be financially aided with gifts and loans?

---

[427]Duverger, Finances, publiques, p. 254. [428]Herber, p. 296.

[428]art. 49.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

4. What agents should pay the obligatory collections?

5. To whom, is it necessary to lend money?

6. When and how to produce, subsidize, lend, borrow, proceed to obligatory collections in order that economic growth is effectuated rapidly and the most regularly possible?[430]

This phase of the French budget process, which may be called the "political phase,"[431] has been growing in importance and duration of time as the budgetary problems above become more complex. During this stage, a number of budgetary outlines are elaborated with an horizon of one or two years. The budgets take into account commitments already made based on the known results of the previous year, and the predicted short and medium term economic situation as well as some adjustments rendered necessary by political tensions. When the budget is revised again to accomodate a two year horizon, in view of the very general budgetary perspectives of the longer range Plan, it is usually found to reveal a substantial deficit.[432] Thereafter, when the budget administration forwards its selected budget outline to the Minister of Finance in January or February, it suggests, also, the increase in receipts possible or desirable, and in which sectors, along with those expenditures which may be reduced. At the same time, it inquires of the Minister, his recommendations for the general orientation of the budget and his priorities.[433]

---

[430] Lequéret, p. 9, translated from original which follows: "-Quels services et quels biens faut-il mettre gratuitement à la disposition des usagers ou de la collectivité? -Selon quelles techniques convient-il les produire? -Quelles enterprises et quels ménages faut-il aider financièrement par des dons ou des prêts? -Quels agents doivent supporter les prélèvements obligatoires? -A qui faut-il emprunter? -Quand et comment produire, subventionner, prêter, emprunter, procéder aux prélèvements obligatoires pour que la croissance économique s'effectue rapidement et le plus régulièrement possible?"

[431] Rivoli, p. 21. [432] Ibid.; Lequéret, P. 30. [433] Ibid.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

At this point, the first outline is examined by the Cabinet of the Ministry and, in addition, if there are any, the Secretaries of State on Finance. Around the middle of February, the budget administration receives its instructions. Them a first model of the French budget is drawn up and presented to the Council of Ministers in the form of a plan of directives to the spending ministries. After their approval, the decisions are forwarded to the ministries and state secretaries in order to indicate to them the circumstances in which they must make their own spending decisions. This occurs around the beginning of April. Up until this point, therefore, the spending ministries, themselves, have not been involved in the preparation of the budget which has been in process for three months. The Minister of Finance, however, by way of the financial controllers, by way of direct relations within the cabinet of ministers and by telephone has been in constant touch with the spending ministers concerning their present and possible future budgetary problems.[434]

In the United States, on the other hand, "the preparation phase starts at the operating levels, where units of bureaus and divisions initiate their budgetary planning more than fourteen months before the beginning of the fiscal year to which the estimates are to apply."[435] The United States Government's fiscal year is not on a calendar year basis as is that of France but began July 1 and ended June 30 until calendar year, 1976. That meant the preparation phase began in March or April of the year prior to the fiscal year in question. Under the new

---

[434] Lequêret, p. 32, footnote (10).

[435] Burkhead, p. 89.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

budgetary process setup in the 1974 Act, the fiscal year now commences October 1st and ends September 30th, but the three months time extension accrues primarily to the benefit of congressional study (the second phase).

During the period in which the budget is being formulated in the U.S. Executive Branch, "there is a continuous exchange of information, proposals, evaluations, and policy determinations among the President, the Office of Management and Budget, and the various Government agencies."[436] In the U.S. System, the President establishes general budget and fiscal policy guidelines on the basis of two sets of projections: agency evaluations and budgetary projections reviewed by the OMB, and the projections of the economic outlook and revenue estimates prepared by the Treasury Department, the Council of Economic Advisers and the OMB.[437] It is only then that tentative policy determinations and planning ceilings are given to the agencies as guidelines for the preparation of their budgets. Their revised expenditure requests are developed during the summer months from approximately July to September 30. In the French system, this stage of the budget process can be further subdivided into three phases: (1) the determination of expenditure ceilings in the broad categories of the Government plan, (2) detailed preparation of the budgetary propositions by the different ministries, and (3) discussion with the Minister of Economy and Finance and the elaboration of the different documents which constitute the project of the loi de finances.[438]

---

[436] U.S. Budget F.Y. 1973, p. 490.

[437] Ibid.; Herber, pp. 295-296.

[438] Lequéret, p. 32.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

The French Budget Preparations and the Spending Ministries

The expenditure ceiling for each spending ministry is not pronounced until the Prime Minister with the assistance of the Minister of Economy and Finance has discussed with each ministry, the principal objectives and priorities of the budget. The ceiling then announced becomes the overall limit for the budget expenditures of the ministry. At the same time as the discussions which result in the expenditure ceilings, the detailed preparation of the budget is under way. It includes the establishments of three series of documents: the voted budget of the preceding year, the services votés, and the new measures or mesures nouvelles.[439] The voted budget, called le vert because its cover is green, is both a detailed document of the previous fiscal year and a first element in the preparation of the document for the coming fiscal year. Its presentation is necessary for two reasons. In the first place, the previous budget document may have been modified since its initial formulation and this document includes the modifications and, secondly, it is an obligatory reference for both the services votés and the mésures nouvelles which are only shown in the annex of the loi de finances in terms of increases or decreases of crédits based on the previous year.[440]

Services votés as explained above are the minimum of crédits that the Government judges indispensable in order that the public services function in the conditions already approved the preceding year by Parliament.[441]

---

[439] Ibid.

[440] Ibid.

[441] Deurel, p. 16, art. 33: "Les services votés réprésentent le minimum de dotations que le Gouvernement juge indispensable pour poursuivre l'exécution des services publics dans les conditions qui ont été approuvées l'année précédente par le Parlement."

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

When they refer to capital expenditures, the services votés are essentially what has been forecast the year before in the autorisations de programmes which the Parliament has approved. These authorizations, for example, may permit the services of National Education to engage in a certain amount of expenses over a period of years. But, in each year for which the work on constructing a given facility is assigned, the administration must include in the services votés, the payment crédits, paralleling the figures annually authorized and voted in the program authorizations, to allow the Minister of National Education to settle up to that specific amount the construction work scheduled for that year according to the program authorizations.

Each minister ascertains the service votés with the aid of the financial service within his ministry and in line with the demand of crédits of his administrations. These proposals must be submitted for approval to the financial controller. They must reach the budget administration by the tenth of May.[442]

At least two French commentators on the practice of services votés have asked if the system does not lead to a "cristallisation" of public services at their former level.[443] Certainly, it is a quicker and more commodious procedure given the short periods of preparation imposed by an annual budget framework but, on the other hand "all initiative in matters of public investment risk being stifled."[444]

Within the document concerning the services votés, analyses by service branch are offered of the mésures acquises. These different sums

---

[442]Rivoli, pp. 22-23.

[443]Cotteret & Émeri, p. 16.

[444]Ibid.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

of mésures acquises are analyzed by title and, in the body of each title, classed and codified by the service branch, by category of the measure, and by the number of the order.

Along with the services votés, the spending ministries must calculate the new measures (mésures nouvelles). These are an essential part of the budget yet amount to only 10 to 15 percent of the completed budget.[445] These measures can be positive in which case, they are supplementary crédits, or negative, in which case they are economies with respect to the services votés. They refer to crédit demands concerning new decisions such as an increase or decrease in subsidies, new or reduced work programs, increase in salaries, etc. It is these new measures which reveal any changes in the activities of the State.[446]

Unlike the case with the services votés, for which the spending ministry normally expects to get the amount of money renewed without difficulty, the funds for new measures are limited and the spending ministry knows competition for them will be very keen. It must be remembered that the Minister of Finance, the Prime Minister and the President have already made a rough division of these funds during the period of global preparation. As the spending ministries have had little to say at that stage, they now try to influence these initial decisions in the period of detailed preparation.[447]

At this point, the spending ministries typically ask for more new money than they really need for tactical reasons. On the other hand, a new procedure has been to choose the ministers who propose new expenses

---

[445]Cotteret & Émeri, p. 16. [446]Rivoli, p. 24.

[447]Guy Lord, The French Budgetary Process (Berkley, California: University of California Press, 1973), p. 136-137.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

in advance according to policy decisions, which tends to limit the margin of discussion.[448] In any case, the spending ministers must transmit their new propositions to the budget administration by the end of April for military and ordinary civil expenses and the beginning of May for civil expenses of equipment. The first subdivision of the budget administration examines these new propositions and formulates its conclusions on the amounts to be allocated to each ministry. It is then that the traditional budgetary conferences begin.[449]

The traditional conferences continue from May to July and consist of a detailed review of the functioning of the services of the State. The initial conferences are at the level of the first subdivision of the budget administration and the representatives of the respective spending ministries. Some of the matters for discussion are the assurance that spending ceilings and the diverse dispositions of the Prime Minister have been respected, that proposed measures by different ministerial departments are consistent, and to control the estimation of services for crédits évaluatifs and provisionnels, in particular.[450]

Any questions not resolved at this level are then set aside for a second round of conferences presided over by the Budget Director. Once again, unresolved questions are reserved for the next level of conferences with the Secretary of State of the Budget. The fourth round of conferences occurs in the month of June with the Minister of Economy and Finance in attendance. Finally, if there is still disaccord between the Minister of Economy and Finance and another spending minister, the matters are submitted to arbitrage with the Prime Minister and, lastly, the Council of

---

[448] Ibid., p. 139; Cotteret & Émeri, p. 17. [449] Ibid.

[450] Lequéret, p. 33.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Ministers. All decisions are finalized by the end of the month of July.[451]

Once the budgetary conferences have been completed, the annexes to the loi de finances or so-called bleus are drawn up and forwarded for printing.[452] This is the description of the formulation of the expenditure portion of the loi de finances, which, altogether, consumes seven months time from January through July. All that remains is the final estimation of receipts, the adoption of the fiscal measures, the agreement on the general equilibrium of the finance law and its approval by the Council of Ministers in September.

The U.S. Budget Preparation and the Executive Agencies

Before the 1974 Act, Executive preparation continued for approximately nine months in the United States, or two months longer than in France.

In April or May and, in some agencies, March or earlier, agencies review their current operations, program objectives, issues and future plans with respect to the new budget. The agency submits projections of requirements based on current operations and future plans. These are justified by special analytical studies and memoranda which indicate major issues as well as alternatives for resolving issues and comparisons of costs and effectiveness. In the meantime, the OMB in cooperation with the Treasury Department and the CEA are developing economic assumptions of the budget and preparing fiscal projections. Forecasts of the international situation are also obtained. The OMB issues instructions and policy guidelines to the agencies on the material to be developed for the Spring planning review. During this period, the President is in consultation, also, with the Director of the OMB and the Cabinet, as appropriate,

[451] Rivoli, p. 24.

[452] Lequéret, p. 34.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

concerning these guidelines. In May, the OMB and the agency heads discuss program development and management issues and the resulting budgetary effects. Then, total outlay estimates are prepared for comparison with revenue estimates by the OMB and that office together with the Treasury Department and the CEA develop recommendations for the President on fiscal policy, program issues and budget levels. In June, these matters are discussed with the President and he establishes the general guidelines and agency budgetary ceilings for the annual budget.[453]

It is now up to the OMB to issue the technical instructions for preparation of the budget estimates to the spending agencies who, in turn, issue their own internal instructions to the same end. The guidelines, which are forwarded to the agencies, often include a "suggested range of expenditures and areas in which some special consideration seems to be needed." The guidelines are based partly on the information contained in the previous year's budget message and partly on the "Administration's long-range policies and programs, on forecasts of future conditions throughout the world, on estimates of what the gross national product (GNP) will be, on the prospects for high-level employment, on the anticipated income under present laws on various assumptions, and on possible increases or decreases in taxation."[454] Now the agencies can prepare for submission of their estimates on the basis of the President's decision on Government-wide policies and assumptions as well, as within the budgetary ceilings provided for the individual agencies. The agencies have about

---

[453]Brite and Halper, p. 595; U.S. Library of Congress, Congressional Service, The Federal Budget Process by G.K. Brite and H.J. Halper, Rev. (29 Dec., 1972), repr. in Improving Congressional Control over the Budget, pp. 570-620, (27 Mar. 1973), see p. 595.

[454]Brundage, p. 67.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

four months or July through September to allocate the budget ceilings to programs and develop estimates with the aid of the OMB, who advises on form, language and structure of appropriations measures.

Agencies submit the formal estimates including projections of requirements for future years from September through November. This three month period is devoted to hearings and analysis of the budget submissions between the OMB and agency representatives in preparation for the Director's review. The OMB reexamines the economic assumptions and fiscal policies while discussing program developments with agencies. After reviewing these matters with the President, the OMB prepares the budget recommendations for the President. Once the President has reviewed these sometime in December, he decides on budget allowances for each agency. It is the OMB who, then, informs agencies of the decisions and they, in turn, revise their estimates accordingly. It is now time for the third and final review by the three cooperating heads of budgetary preparation together with the President concerning both tax and other economic policies. It is late December or early January, and the OMB drafts the President's budget message, prepares the budget and summary tables, the appendix, the special analyses, the budget in brief, and arranges for their printing. All that remains at this point, is the President's revision of the budget message and his transmission of it and the recommended budget to Congress in mid-January.[455]

Generally speaking, the French budget preparation process is of shorter length, and appears to offer less flow-back of decisions from lower to higher echelons in the governmental hiearchy. Of the French system, one would not say "that it emerges and crystallizes as decisions are

---

[455]Brite and Halper, p. 595.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

made," nor could one say that "it does not spring full-blown from a planing staff that outlines it in advance" as Jesse Burkhead has said of the United States process.[456]

Estimation of Receipts

In the French system, the estimation of receipts are made by the General Administration of Taxes and the General Administration of Customs and Indirect Duties with the collaboration of the Forecasting Administration. Actually, the estimation of receipts by these administrations is a more delicate task than that of estimation of expenditures. This is because there are many unknown elements involved in the calculations such as the future income of taxpayers and the nature and quantity of their spending.[457] In practice, the earliest tradition in France has been to underestimate receipts which was greatly aided by the method of automatic estimation or the formula known as la penultième année. It meant, simply, writing in the amount of receipts actually collected in the last year they are known with precision. As the new budget is being prepared during the course of the previous one, say the 1972 budget is being prepared during fiscal year 1971, the receipts to be included in the proposed new budget would be those of 1970. This rule, inaugurated by Villèle in 1823[458] lasted well into the twentieth century in France with only a brief period in which it was modified by the tantièmes de majoration, employed by Léon Say in the Ministry of Finance, in 1883. It added to the receipts of the

---

[456] Burkhead, p. 91.

[457] Lequéret, p. 34; Trotabas with Cotteret, p. 89; Duverger, Finances publiques, p. 259; Rivoli, p. 35.

[458] Duverger, Finances publiques, p. 260.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

penultimate year, the average of increases which were produced from one year to another during the five previous years.[459] The rule of the pénultième année seemed to work as long as an economy remained relatively stable or with slight growth as an underestimation of receipts reserved a slight margin which compensated for the inaccuracy of the budget forecast generally. But, this advantage disappeared after World War I, and the rule was then revealed to be dangerous for the balance of the budget.[460]

In the period of monetary inflation which followed after the war, receipts estimated on a base of two years previously were very largely underestimated. Taxpayers, as a result, paid higher taxes than the real needs of the budget required and the surplus provoked wastage of the public monies.[461] On the other hand, when a deflationary crisis appeared, the immediate drop in receipts lead to a budget deficit. Thus, beginning in 1919, the rule dropped from favor and was completely abandoned beginning in 1938.[462] Of course, modern day economists would suggest that the rule had some advantages from a stabilization point of view.

Since that time, revenues have been forecast on the basis of direct estimation techniques. The technique still begins with the actual receipts collected in the last period for which results are known, but these figures are then corrected for seasonal factors and certain hypothesis about the future state of the economy. Unlike the U.S. System, however, these estimates are prepared within the Ministry of Economy and Finance.[463] In the U.S., the Administration's tax policy has traditionally

---

[459] Ibid.; Cotteret & Émeri, p. 18.

[460] Trotabas with Cotteret, p. 89. [461] Ibid.

[462] Ibid.; Duverger, Finances publiques, p. 261.

[463] Jean-Pierre Kerjolis, La Direction du Budget (Paris: l'Institut de Paris, Institut d'études politiques, 1963). p. 126.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

been prepared by the Secretary of the Treasury along with the revenue estimates though they are subject to independent examination by the staff of the CEA or the OMB.[464] In practice, however, policy recommendations of the Treasury are rarely questioned at these reviews. Primary responsibility for policy recommendations remains with the Treasury Department and, within that department, the work is performed by two staffs: The Office of Tax Analysis and the Office of Tax Legislative Counsel. The former concentrates on revenue estimation and projections and a general analysis of tax issues and their effects on the economy. The Office of Tax Legislative Counsel is concerned with drafting tax legislation and providing legal and accounting analyses of tax issues along with decisions upon tax rulings and regulations.[465]

In spite of the fact that revenue estimates are an essential part of the budgetary process and, indeed, are constantly revised during the budget cycle, they play a very small role in both the budget message of the President and the budget document. In 1969, for example, the President devoted about one page of forty-five in the budget message to discussion of tax recommendations and the budget document, itself, devoted eleven pages (six of which are tabular presentations) of over five hundred to an "Analysis of Receipts." Furthermore, the analysis does not reveal the estimation techniques but simply states the economic assumptions by calendar year of gross national product, personal income and corporation profits before tax.[466]

It has been suggested that because the Treasury has been responsible for tax estimates and policy and, customarily, the Administration's tax program is submitted at a different point in time than the budget,

---

[464] Burkhead, pp. 90, 300.

[465] Herber, p. 296.

[466] U.S. Budget F.Y. 1969, p. 65.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

"the budget of the United States is primarily an expenditure document."[467] In the future, this conception may change as tax decisions are brought to the forefront within the new budgetary process. In France, on the other hand, the loi de finances has been accompanied for some time by several documents discussing tax policy and revenue estimates. Two of the more important of these appear with the documents of general information: namely, the Economic and Financial Report and its annexes which include seventy to eighty pages on the estimation of resources.[468]

Forecasting Expenditures

In contrast to the presentation of receipts, the forecast of expenditures is relatively simple. Each ministry estimates the cost of public services which depends on it directly, allowing for their possible extension. Of course, there is often the occasion where spending ministers ask for more than they need, as suggested earlier, but according to article 33 of the ordonnance they cannot, at least for services votés, obtain more crédits than they did in the preceding fiscal year reduced by nonrenewable entries and increased by measures approved by Parliament or decided by the Government.[469]

In some cases, spending ministries present "true" estimates to impress the budget administration with their frankness and determination. This became the policy of the Ministry of Education, for example, after the establishment of a General Secretariat in October 1963.[470] In still other cases, it may be advantageous for the ministry to underestimate claims at first. This would be true for complex and technical programs

---

[467] Burkhead, p. 94. [468] Lequéret, p. 35. [469] Trotabas, p. 88.
[470] Lord, p. 139.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

of long duration. In this way, it is easier to get the Government and/or Parliament to undertake new services which may be vital but which might be turned down if true costs were known. Supplementary crédits can always be requested, once the service is functioning. This may have been the case for Concorde and some defense projects.[471]

The argument that agencies ask for more than is expected is also claimed in the United States. "The tendency is always to ask for more than is expected, partly because the heads believe in the activities, partly because they expect to be cut, in the face of the general constraints against all increases and the competition of other agencies, partly because they think that the higher authority believes they pad their requests."[472] At least two writers have spent considerable space discussing the several techniques by which agencies strive to achieve higher figures.[473] Even if unsuccessful in their efforts with the OMB, "they may seek to influence the appropriations subcommittee that deals with their activity.[474]

Functions of the U.S. Office of Management and Budget (OMB)

It may be the OMB and its own position which has tended to encourage the agency behavior described. If the Office knows that Congress is seeking to hold down expenditures, it tends to be reluctant to raise the budget totals. In fact, one study showing the appropriations histories of thirty-seven bureaus dealing with domestic policies from 1947 to 1959 (444 cases) concluded that "Bureau estimates are reduced about three-fourths of the time."[475]

---

[471]Ibid., p. 139, footnote 48. [472]Due, p. 54.

[473]Aaron Wildavsky, Politics of the Budgetary Process, (Boston: Little, Brown & Co., 1964), Chap. 3; Lord, pp. 136-144.

[474]Due, p. 55. [475]Wildavsky, pp. 40-41.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

The reduction of expenditures by the Office has been a traditional role ever since the creation of that body with the Budget and Accounting Act of 1921. The earliest major attributes of budget preparation emphasized this approach well into the 1930's.[476] It was not until the Reorganization Act of 1939 and later Executive Orders which moved the Bureau from the Treasury to the Executive Office of the President, that its second major attribute, program review, became more developed. In 1945, the Government Corporation Control Act, gave the Bureau the authority to review estimates of Government corporations which now became a part of the budget. The Budget and Accounting Procedures Act of 1950 specified the Bureau's role in budget classification and improvement of Government accounting systems. It was followed by Executive Order 10253, "for the improved gathering, compiling, analyzing, publishing and disseminating of statistical information by Federal agencies."[477] However, in spite of strong efforts by the Bureau since then "to improve and coordinate the economic statistics of the Federal Government, all admit that the present system is far from satisfactory."[478]

The General Appropriation Act of 1951 gave the Bureau authority to apportion appropriations and to establish revenues against appropriations.[479] There had been an Executive Order, however, as early as 1933 giving the Bureau authority to make quarterly apportionments which had previously been exercised by department heads.[480] Additional discussion

---

[476] Burkhead, p. 292. [477] Brundage, p. 120. [478] Ibid., p. 129.

[479] General Appropriation Act of 1951, Statutes at Large, vol. 65 (1951).

[480] Brundage, p. 22; E.F. Bartelt, Accounting Procedures of the United States Government (Chicago: Public Administration Service, 1940), p. 8.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

on the subject of Apportionment powers will be presented in Chapter 10.

In the 1950's and thereafter, the Bureau's function of program review expanded but is was more diffused as well among various other Governmental agencies. Then, the Reorganization Plan No. 2 of 1970 created the Office of Management and Budget to replace the Bureau of the Budget within the Executive Office of the President. The Plan created, also, the Domestic Council with duties as described in Chapter 2. Thus, the new Office, OMB, shared responsibility for program review with among other agencies, the Council of Economic Advisers, the National Security Council, the Treasury Department and the Domestic Council. It shared, also, a new function, developing executive talent with the Civil Service Commission and the White House.[481] In the French scheme, personnel management has always remained under the surveillance of the Budget Office in the Ministry of Economy and Finance alone.[482]

Functions Concerning Budgeting of the French Ministry of Economy and Finance

In France, the participants in the budgetary process are more formally organized. There are three divisions in the Ministry of Economy and Finance who play major roles in the preparation of the budget: the Budget Division, the Forecasting Division and the Treasury Division. Outside of these, three other administrative offices play important roles in the elaboration of the budget: The Financial Comptroller, the Fund for Economic and Social Development, and the Commission on National Accounts. The work of these divisions is coordinated by the Minister of State for the Budget.[483]

---

[481] Emmerich, p. 200. [482] Pallez, p. 112. [483] Lord, p. 54.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

As in the United States, the Budget Division is a relatively new institution in France, having been created in 1919. Before that time, the preparation of the budget was the province of a specialized bureau in the Public Accounting Administration.[484] In the early years of the Bureau, its main function was control. However, in the late 1940's, as new theories gave rise to the importance of the budget in economic policy and in relation to the general economy, a reorganization of the Budget Division occurred whose general appearance remains today. The Budget Administration was composed of three divisions: (1) for budget preparation and control of engaged expenses, (2) for questions concerning rules, salaries, pensions of civil and military personnel and (3) for control of local collectivities, overseas territories and administrative offices.[485]

In 1971, the last year of this study, the Budget Administration was composed of six subdivisions: (1) overall budget including control of expenditure, (2) public investment, (3) civil service pay and conditions, (4) nationalized industries, (5) supervision of local authority finance, agriculture and overseas assistance and aid, and (6) social security and internal organizations.[486]

The Budget Division fulfills three basic functions. It is responsible for the overall preparation of the budget; it is the main adviser of the Government when the budget is before Parliament; and, it supervises the implementation of the budget according to budgetary provisions. In describing the preparatory phase of the budget cycle, we have already outlined the work of the division in this area which is not unlike our own. However, in its second and third functions, there are some important differences which will be studied in the legislative authorization phase and

---

[484]Kerjolis, p. 5. [485]Ibid., pp. 9-10. [486]Hayward, p. 163.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

execution phase, respectively.[487] There is just one additional point to be made here about a particular feature of the French budgetary system in apposition to the U.S. System. This feature is the presence in each of the various ministries of a representative of the Minister of Economy and Finance, the Financial Comptroller. He was formerly known as the Controller of Engaged Expenses but the title was changed with the statute of 23 January 1956.[488]

Since the beginning of the 20th Century in France, the Financial Controller has been a link between the spending minister and the Minister of Finance but, with the law of 10 August 1922, he became formally, the agent of the Minister of Finance, named by him and responsible to him, alone.[489] One of his duties is to give advice on the budget presented by the ministry. Essentially, the statute of 1956 expressed two points about the capabilities of the controller: that he be competent enough to handle complex problems when they arise; and, that he be independent enough to be able to execute an impartial control.

To achieve these ends, rules were established for the means of his recruitment (1922), for his grade in accordance with the importance of the ministry (1942) and for his time of service limited to five years in the same ministry (1942).[490] In addition, he is paid by the Minister of Finance, though a part of his salary is recuperated under the form of a payment versed from the spending minister. His functions are as a controller and an accountant as well as an advisor on budgetary matters. It is because he must keep accounts of the financial transactions of the ministry and check on accuracy and regularity of all proposed expenditure that he

---

[487] See below, Chapters 9 & 10.

[488] Kerjolis, p. 103.

[488] Ibid.

[490] Ibid., pp. 104-108.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

is so well aware of what goes on in the ministry and can serve as an advisor on the ministry's budget estimates. Formally, he issues a written report which is attached to the spending estimates of the ministry. However, these reports tend not to be given much weight by the Budget Division because "out of courtesy" the report is most frequently shown to the spending minister by the Financial Controller. Thus, the informal or oral contacts of the controller expressing his opinion on the soundness of estimates tend to carry more influence with the Budget Division. However, his job is considerably complicated by the fact he is used also by the spending ministry as a consultant in budgetary matters including giving advice on how to prepare estimates and, sometimes, even on how to handle its case with the Budget Division.[491]

The Treasury Division has complex responsibilities which will be briefly described in this section and turned to again in the execution phase.[492] The Treasury deals with the elaboration and implementation of financial and monetary policies of the Government at the national and international levels. With respect to the budget, the Treasury Division deals with three types of questions: "(a) the determination of the overall balance of the budget in a particular year; (b) the preparation and control, in liaison with the budget division, of the part of the Finance Bill which corresponds to the Special treasury accounts (essentially, loans to the public and private sectors); and (c) the Fund for Economic and Social Development (F.D.E.S.),"[493] which are also a part of the special Treasury

---

[491] Lord, pp. 59-60; Duverger, Finances publiques, pp. 326-329; Trotabas with Cotteret, pp. 159-161; Cotteret & Emeri, pp. 113-114; Lequeret, pp. 42-43.

[492] See below, Chapter 10.

[493] Lord, p. 60.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

accounts as discussed earlier. The Public Treasury in France, as a division of the Minister of Economy and Finance, is one of the most important elements of their financial institutions. Unlike the Treasury in the United States, the Treasury in France is responsible not only for participating in budget preparation and execution, but it also assures the financial services of the local departments and municipalities, public establishments and public enterprises.[494]

The Forecasting Division together with the Budget and Treasury Divisions prepares the national accounts for the previous year, and the national economic budget for the current and coming years. The Forecasting Division together with the Planning Commission and the ministries concerned aid in the preparation of the Government's medium and long-term economic policies.[495]

With respect to the nation's economic budgets, there are two types involved: provisional and exploratory. The exploratory budgets are developed before the Government has detailed the projected Finance Bill, through the joint efforts of the Forecasting Division, the Budget Division, the Treasury Division and the Tax Division. These budgets are relatively new as they have been informally employed only for about fifteen years, and employed with the use of a formalized iterative model since 1968 and 1969.[496] Given the nature of economic relations according to the national accounting system, the general idea of the model is to construct an equilibrium model with two principal variables: rate of growth of production and household consumption expenditures.[497]

---

[494] Trotabas with Cotteret, p. 145.

[495] Lord, p. 62.

[496] Rivoli, pp. 48-49.

[497] Cotteret & Émeri, p. 22.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

The provisional budgets differ from the exploratory budgets in that they are based on the completed project of the Finance Bill or the one just voted. Thus, they incorporate a much richer body of information on the economic situation. Both of these types of economic budgets are used as an instrument of analysis of conjoncture which can be defined as the situation of an economy observed at a given moment or in a short period of time.[498] The budgets correspond to a coherent synthesis of all sorts of information which is necessary for the definition of the probable or desirable path of the economy in the framework of national accounting.[499] It is a final version of one of these provisional budgets which is published in early September and included as an annex to the Economic and Financial Report which accompanies the Finance Bill.[500] The Forecasting Division prepares the economic part of the initial report while the Treasury and Budget Divisions prepare the financial aspects. The Commission of National Accounts supervises the preparation of the national economic budget which is prepared in conjunction with the National Institute of Statistics (I.N.S.E.E.).

Finally, there is one more important participant in the preparation of the budget who should be mentioned and who illustrates at the same time another link between the budget and long-term economic policy, namely the Plan. It is one of the interministerial committees which have been set up at the prime ministerial level to achieve overall coordination of the Government's economic policy. It is an Interministerial Economic Committee which is chaired by the Prime Minister and brings together, weekly, ministers including the Minister of Finance, a permanent member,

---

[498] Rivoli, p. 46.

[499] Ibid., p. 48.

[500] Lequéret, p. 35; Lord, p. 62.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

and high civil servants concerned with economic matters. It was established under the IVth Republic but has been used more intensively by the Vth Republic. For example, in March 1966, three study groups were created and made responsible to the committee for following the implementation of the Fifth Plan with respect to public administration, public enterprises and industrial development. The tasks on public administration were closely related to the budgetary process and called for reevaluating the tasks of the state while the budget is in preparation. The duty of the group was to suggest reforms that might improve administrative efficiency and that might result in the saving of public funds.[501]

The regular meetings of the Interministerial Economic Committee usually have consequences for the budgetary process as well, but only two or three are specially devoted to the budget. At these meetings, the General Commissioner of the Plan and the delegate for Regional Planning and Rural Development is present. The first draft of the budget prepared by the Minister of Economy and Finance is included on the agenda along with such major questions as the budget's overall balance, the allocation of resources between current and capital expenditures, the link between the national plan and the investment budget and the determination of priority sectors. Ordinarily, no spending ministers attend these meetings so that when the Council of Ministers meets to consider budgetary strategy, the ministers soon learn that the two main participants, the Prime Minister and the Minister of Economy and Finance have already ironed out their differences.[502]

---

[501] Lord, pp. 75-76.

[502] Ibid., p. 77.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

CHAPTER 9

THE LEGISLATIVE VOTE

Overview of Chapter 9

Unlike the freedom of expression permitted to the U.S. Congress in adding to, subtracting from, or completely changing the executive budget, the French Parliament is restricted both in its statements about the budget and the time in which it may state them. This chapter contrasts the voting procedures of the two countries and some legislative budget institutions such as carryover balances, budget authority, zero-based budgeting and the choice of the financial year.

Role of the Legislature in Budget-Making

"The general responsibilities of a legislature in budgeting are (1) the formulation of policy with respect to program level, (2) the formulation of overall fiscal policy, and (3) the oversight of administration."[503] It seemed, at the time of the statement, that legislatures had not kept pace with the executive budget offices either in their organization or their procedures. While the executive budget offices appeared to become more centralized, organized and more efficiently staffed, legislatures retained traditional procedures, made modest additions to staff personnel and tended towards more decentralization in budget-making activity.

[503] Burkhead, 315.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Jesse Burkhead suggested that it may well be that "legislatures would do better to strengthen their existing authority by increased oversight of executive budgetary procedure and program level, and by a search for new budget-making techniques designed to enhance the role and prestige of the legislature in carrying out its own budget-making responsibilities."[504] It has taken the U.S. Congress twenty years to make a significant step in that direction.

Restrictions of French Parliamentary Financial Powers

On the other hand, in France, it has been a question of more than just lagging behind in organization and procedure, the Parliament has severe restrictions on its financial powers. These restrictions take, essentially, three forms: restriction of the power of budgetary specialty, inability to propose expenditures, and the rights of Government in case of lateness in the vote of the budget.[505]

Budgetary specialty refers to the degree of precision which the authorization of budgetary crédits attains.[506] Certainly, Parliament exercises a stronger control on executive liberty of action when it votes on each chapter of the budget than when it votes on broad categories of expenditures only. Under the Third Republic, Parliament did vote by chapters. However, the procedure became a practical impossibility as the number of chapters increased from 1,500 in 1914 to 2,000 in 1939, and 4,000 in 1956.[507]

Then, in the Decree of 19 January 1956, the procedure was changed

---

[504] Ibid., p. 316.

[505] Duverger, Ve Republique, p. 147.

[506] Trotabas, p. 134.

[507] Ibid.; Duverger, Ve Republique, p. 147.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

but the rights of Parliament were still respected in the following way. The budget was voted by ministry and by title, but the allocation of crédits by chapter was made by the Government through decrees after parliamentary action. In spite of the new practice, the Finance Committee of the Assemblies could oppose the decrees of allocation and undertake the division of crédits, themselves.

The Ordonnance of 2 January 1959 maintained the system of the parliamentary vote by titles and the general mode of the budgetary presentation, but it eliminated the intervention of the Finance Committees in the decrees of allocation. These decrees became the province of the Government alone though, of course, the ministries did have to respect the allocation by chapters made in the decrees.[508] Thus, one way evolved in which the rule of specialization of crédits was relaxed even though it was still proclaimed by article 7 of the 1959 Ordonnance. Other ways adopted included the use of global crédits, transfers of crédits and by the existence of the annexed budgets and the special accounts where the allocation of crédits is made only by particular budget or by individual account.[509] The annexed budgets and the special accounts have been discussed in Chapter 6, global crédits and transfers of crédits will be discussed in the next chapter, "The Execution."

The second restriction on the financial power of Parliament is its inability to propose expenditures. Unlike members of the U.S. Congress, members of the French Parliament do not have the right to introduce a proposition or an amendment which will create or aggravate a public expense or diminish a public resource according to article 40 of the Constitution of 1958. The interpretation of the text by the Assembly and

---

[508] Ibid. [509] Ordonnance 1959, art. 43.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

by the exterior organ, the Constitutional Council, however, has been in a very broad sense. In fact, it has been suggested that the interpretation is all a question of circumstance.[510] It must be observed that this restraint upon Parliament has no formal counterpart in the U.S. authorization procedure. "The Congress can alter or eliminate programs or add programs not requested by the President. The Congress can change the amounts recommended by the President, either increasing or decreasing them."[511]

Henri Laufenburger, a French economist, writing in 1950, believed that the reduction in the rights of the French Parliament in budgetary matters was a wise move. According to Laufenburger, Parliament meddled constantly under the Third Republic under the most diverse pretences in the preparation and application of the budget. Not satisfied with changing the assignments of crédits made by the Government, claimed Laufenburger, Parliament even created expenditures which had not been envisaged by the Government in the first place. With the Constitution of 1946 which limited the right of parliamentary initiative in matters of expenditures, Parliament was free at last, according to Laufenburger, to exercise its sovereign power of seeing to it that the budget-be executed conscientiously in all of its parts which have been adopted.[512]

As for the restriction on the French Parliament's financial powers when it is late in the vote of the budget, it is necessary to explain the procedure of the vote of the budget in France in comparison with that of the United States in order to fully comprehend the scope of the third condition.

---

[510] Cotteret and Émeri, p. 58. [511] Brite and Halper, pp. 600-601.

[512] Henri Laufenburger, Finances Comparées, É-U, F, G.B. & U.R.S.S., (Paris, Recueil Sirey, 1950), pp. 60-62.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Granting Budget Authority in the U.S.

In both countries, the lower house, l'Assemblée nationale in France and the House of Representatives in the United States, have priority in financial procedure. In France, this long tradition has meant that for budgetary matters, the Assembly is the first to study and vote on the loi de finances. In the U.S., the Constitution provides only that revenue measures must be initiated in the House though, in practice, it has become traditional for the House to initiate appropriations measures as well.[513] In addition, before any action is taken with respect to appropriations measures, new programs or existing programs with annual authorizations must be first approved by Congress in substantive form.

Traditionally, Congress first enacts legislation which authorizes an agency to carry out a program and then, upon authorization, House action on appropriations starts with the assignment of each appropriation bill to a committee. Under the Constitution, Congress does not act upon expenditures but, it does provide authority to incur obligations which will become expenditures when the goods and services are delivered and payment made.[514] This is the interpretation derived from the constitutional provisions that "No money shall be drawn from the Treasury but in consequence of appropriations made by law."[515]

The action of granting budgetary authority thus entails separate subsequent action. The budget authority is mostly in the form of ordianry appropriations but it need not be. Actually, a substantial portion of budget authority is composed of permanent authority and authority to spend

---

[513] Burkhead, p. 97.

[514] Brite and Halper, p. 599.

[515] Brite and Halper, p. 605.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

debt receipts which are generally not subject to direct annual review by the congressional appropriations committees.[516]

After the granting of budget authority, the first step of the full Committee on Appropriations is either to hold special hearings with the Director of the Office of Management and Budget and the Secretary of the Treasury or to refer such appropriation bill to one of its thirteen subcommittees. The subcommittees include, for example, one for Agriculture-Environmental and Consumer Protection, one for Defense, and one for Foreign Operations. Each of the subcommittees hold hearings and receive written justifications from the agencies and department heads. When the hearings are completed, the specific appropriation bill is debated in a closed session on a line-by-line basis, known as "marking up the bill."[517] When the subcommittee has completed its markup, which consists in determining the appropriations to be recommended and any limitations to be attached to the use of funds along with a report explaining the reasons for its actions and some general observations on the agency's programs, the bill and the report are referred to the full committee.

Usually, the full committee adopts the bill and report without revision and they are ready, at this point, to be reported to the House. In referring to the final decisions of the committee, Richard Fenno claims that "In three quarters of the cases, it does reduce budget estimates" from what were originally recommended by the President. Of a total of 575 cases concerning thirty-six bureaus from 1947 to 1962 investigated, the House Appropriations Committee made 423 decisions which were decreases

---

[516] Brite and Halper, p. 605.

[517] Michael E. Levy, Delos R. Smith, Juan de Torres and Vincent Massaro, The Federal Budget, Its Impact on the Economy, Fiscal 1975 Edition, Conference Board Report No. 621. (New York: The Conference Board, Inc., 1975), p. 15.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

below budget estimates. However, most decisions were marginal ones amounting to only a 5 percent change from the original estimate.[518]

The bill is reported to the House of Representatives as a committee and it debates and reports the bill with the chairman of the subcommittee acting as floor manager. General debate is limited and, usually, the action of the Appropriation Committee is approved. Once the bill is approved, it is forwarded to the Senate for a similar though, ordinarily, briefer process. On occasion, Senate hearings begin before the House completes its action.

The main difference between the House and Senate procedures and attitudes are (1) the Senate tends to act as a court of appeal noting differences between appropriations requested by the President and action which the House took, usually reductions, and (2) floor discussion in the Senate is likely to be more extensive "because of the privilege of free debate, and modifications on the floor are more frequent than in the House."[519]

If the Senate should amend the House bill, it goes to a conference committee of both Senate and House members for their reworking of the differences. When this occurs, it must again be forwarded to the full House and Senate for approval in the conference version. When approved by both houses or, if the Senate makes no change in the House bill, it is forwarded to the President for signature. This action must be completed by the beginning of the fiscal year otherwise Congress must enact a continuing resolution.[520] When the President receives the bill, he must either accept

---

[518]Richard R. Fenno, Jr., The Power of the Purse: Appropriations Politics in Congress, (Boston: Little, Brown & Co., 1966), p. 353.

[519]Burkhead, p. 99.

[520]Brite & Halper, pp. 597-598.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

it totally or not at all. He does not have the privilege of selective veto.

Voting the Budget in France

There are both similarities and differences here with the procedure of the vote of the budget by the French Parliament. One striking difference is the specification in France that, according to the Ordonnance of 1959, the first vote on the finance bill must be to specify the overall expenditure limits and the balance of the budget. As we have explained, in the United States each bill or proposal is reviewed piecemeal and on its own merits. Of course, the Congressional Budget and Impoundment Act of 1974 is now in effect and has changed this procedure which has been a constant source of complaint for economists for many years.[521]

A second point of difference between the parliamentary and the congressional system under discussion is the time alloted for legislative review. It is considerably shorter in the French system where only seventy days are permitted according to article 47 of the Constitution of 1958 or the Government can promulgate the budget by ordonnance. This rule applies only if Parliament has not reached a decision within the given time limit not if it has rejected the Government's budget.[522] In the United States, on the other hand, Congress had six months, from January through June to consider the budget and under the new procedure Congress will have nine months, from January through September, as the fiscal year begins on October1 instead of July 1. The French National Assembly, who must consider the budget

---

[521] Smithies, p. 163; Burkhead, p. 338; Herber, p. 298.

[522] Duverger, Finances publiques, p. 291.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

first according to article 16 of the Constitution of 1958 actually has from the second day of October until the thirteenth of November, or forty days to make its decision.[523] The budget project is immediately forwarded, therefore, to the Finance Committee, which is one of the most important of the parliamentary committees.[524] Under the Third Republic, the Committee could replace the governmental project with its own in the same way that Congress can add, amend or change the U.S. budget. Under the Fifth Republic, Parliament may only consider the governmental text.

The Finance Committee of the National Assembly begins by designating some special reporters, Rapporteurs spéciaux, in order to examine the crédit demands of the ministries, after the hearing of all parties concerned. The Committee also asks a representative of the Budget Administration for explanations. In the United States, it has been the responsibility of the departments and agencies, themselves, for the presentation of the President's budget. There has been no general presentation of the Administration's budgetary policy nor was the President's budget message debated or discussed, and finally, representatives of the Bureau were seldom present at Congressional hearings.[525]

On the other hand, in the French system, not only does a budget administration representative enter at this point, but the Minister of Finance and the Prime Minister play an important role in the discussions on governmental economic and fiscal budget policy before the full Assembly.[526] Other committees of the Assembly, according to their competence, also formulate their advice on crédit (for expenditures) demands. There is a general

---

[523] France, Constitution of 1958, article 47.

[524] Lequéret, p. 36. [525] Burkhead, p. 98; Smithies, p. 135.

[526] Rivoli, p. 30.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

reporter designated by the Committee to examine general budgetary problems. The Committee studies as well, amendments transmitted to it by individual members of the National Assembly. However, amendments cannot be considered except if they would tend to effectively suppress or reduce an expense, would create or increase a receipt or would assure the control of public expenditures.[527]

Each special reporter gives his conclusions to the Finance Committee along with his report which contains the observations presented by the committee corresponding to the interested ministerial department. It is the general reporter's job to make a report on the whole of the finance bill project. At this point, the parliamentary documents relative to the examination of the bill by the committees of the respective ministries are prepared and distributed to all the members of the National Assembly.

Now is the time for debates in the National Assembly. These begin either after an explanatory statement by the general reporter on the whole of the budget or, simply, by a general discussion. The heads of the different parties explain their opinions in general terms of the governmental policy with respect to the budget. Then, the debates take a more technical character as the specialists and the whips or boiters, who are charged with explaining the absent votes, participate.[528] In the United States, special interest or pressure groups exist as well which work both during executive preparation and legislative authorization. But, they do not make a formal presentation of their case on the floor of Congress.[529]

---

[527] France, Ordonnance of 2 Jan. 1959, article 49.

[528] Cotteret and Émeri, p. 67.

[529] Herber, pp. 297-298.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

After the presentation of the financial and economic policy of the Government by the Prime Minister or the Minister of Economy and Finance and the following debate, the votes are taken on the finance bill. During the Third Republic, the incoherence of the debates was in part engendered by the many rounds of votes necessary which amounted to as many as 3,000; now, the total number of rounds of voting has been reduced to less than 500. According to rule, Parliament first votes on collection of receipts; then, a single vote is taken on the services votés of the General Budget.[530] In the United States, however, any proposals pertaining to revenues or the taxing process are frequently transmitted later and referred to the Ways and Means Committee of the House of Representatives and the Finance Committee of the Senate. They are, then, handled and voted upon separately from appropriations bills.[531] Of course, this will not be the case from fiscal year 1977 forward.[532]

After the vote is taken on the existing services of the French General Budget, new authorizations are adopted by title and, within each title, by ministry. The annexed Budgets and the Special Accounts of the Treasury are subject to an identical procedure. Altogether, this procedure should involve approximately 150 rounds of voting.[533] This may be the rule, but according to Cotteret and Émeri, the deputies of the National Assembly do not vote on the services votés until the end of the debate. New authorizations, mésures nouvelles are voted by ministry and, for each ministry, a vote by title is taken, but the vote by economic categories has been abandoned for the traditional ways.[534] The number of rounds of voting has

---

[530] Cotteret and Émeri, p. 68.

[531] Brite and Halper, p. 596.

[532] See below, Chapter 14, discussion of Congressional Budget & Impoundment Control Act of 1974.

[533] Lequéret, p. 36.

[534] Cotteret and Émeri, p. 67.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

been reduced, therefore, but by substantially less than predicted above. Nevertheless, with fewer rounds of voting, the budget does have better chances of being adopted.

In France, in spite of the limitations on the powers of the deputies with respect to new propositions and amendments, the National Assembly can submit either a motion of censure or a vote of lack of confidence, in which cases the Government must resign and the budget is not adopted. However, there are at least three reasons why this route has not been chosen frequently under the Fifth Republic: (1) Deputies run the risk of dissolution of the Assembly; and, (2) it has been only recently that any tendency has developed for a stable two party system with larger homogeneous and disciplined groups that permit meaningful dialogues with the Government; and, (3), in the French presidential system, the President is not responsible before Parliament, only the Prime Minister need resign.[535] However, during the years 1960 to 1970, the Government had used the techniques of the question of confidence in its favor.

According to article 44 of the Constitution of 1958, the Government can ask either house to vote on all or part of a text under discussion retaining with it only those amendments proposed or accepted by the Government. This procedure is known as the vote bloqué and is really an implicit vote of confidence. It places pressure on the Government's majority in the house by constraining it to vote on the total package presented by the Government. It has been successfully used in the National Assembly but has had some negative results in the Senate. The Government can ask, also, for a vote of confidence in the National Assembly according to article 49 of the Constitution. In this case, the adoption of the text

[535] Lord, p. 173; Duverger, Finances publiques, pp. 161-165.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

is linked to the maintenance of the Prime Minister in power. One-tenth of the members of the National Assembly must sign for a motion of censure to be admissible. If, after forty-eight hours from the time the question has been posed, the motion of censure has not been filed and adopted by a majority of the Aseembly members, the text is considered adopted with no further formal vote necessary.

Everyone is happy if this should be the case because the Government has been confirmed in power and its policy adopted while the opposition can always say to their constituents, we are more numerous than you thought and, after all, we did not vote for the budget.[536]

Because, it is likely that the Government is assured of its majority in the lower house and the budget will be adopted, some importance is attached to the upper chamber, the Senate. However, its powers in budgetary affairs are considerably less than the National Assembly's. In the United States, the Senate and the House are on an equal footing in budgetary matters except for their order of consideration of the budget. In France, the Senate cannot systematically oppose a project of the budget which the lower House has passed without reservation nor can it secure the resignation of the Government though it has attempted both of these roles. The French Senate, nevertheless, must act on the finance bill during the second half of November or in a time period of fifteen days, according to the 1959 Ordonnance. However, this period was extended to twenty days in 1971 in the event that the National Assembly has not used all the time alloted to it. If the Senate has not issued its vote in this time period, the Government can resubmit to the National Assembly the text submitted to the Senate along with any amendments

[536] Cotteret and Émeri, pp. 58-69.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

thereto accepted by the Government.[537]

On the other hand, if the Senate and the House do not agree on the budget and it is shuttled back and forth between them to bring them to identical terms, the Government can intervene by way of procédure d'urgence. In this procedure, the Prime Minister has the power to convene a joint conference committee of Senators and Deputies charged with proposing a compromise text on the matters in disagreement. This compromise text is then resubmitted by the Government to the two Assemblies for approval. No amendment is receivable without the accord of the Government.

If the Joint Committee does not reach a compromise, the debate returns to the National Assembly for a second period of shuttling. If disagreement still persists, the National Assembly also has the last word in the event that the two chambers do not satisfy the compromise text of the Joint Committee. The procedure of having the budget adopted by the National Assembly has been used regularly since 1960. In the period 1960 to 1972, the Senate ratified the Joint Committee text only three times. The other times, the Committee either did not resolve a compromise text or the Senate did not ratify its conclusions.[538]

In this manner, the finance law is voted upon by the twelfth of December at the latest if both houses adopt a common text in the period of seventy days. Beginning with December 13th, the Government can authorize the budget (modified by amendments voted by Parliament and accepted) by Ordonnance if the Parliament has not voted it. The finance law must then be promulgated by the President of the Republic and published in the Official Journal by the 31st of December in order to be

---

[537] Lord, pp. 176-177; Cotteret and Émeri, pp. 70.

[538] Cotteret and Émeri, p. 71.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

executed.[539]

After the promulgation of the finance law, the Government turns to the décrets de répartition for the execution of the law. These decrees allocate by chapter both crédits for existing services and for new measures and had accompanied the initial finance bill though Parliament was permitted no expression of opinion about them.[540] Now, ministerial aides are issued on the basis of these decrees. However, during the year, the minister can modify the allocation stated below the level of the chapter.

Finally, the Budget Administration in collaboration with each ministerial department issues the budgetary papers which present the full detail of the budget. Contained in the papers are all voted crédits, payment crédits and program authorizations. These papers are distributed during the month of May of the budgetary year.[541] This power of the Government in allocation of crédits by chapter, article, paragraph and line at the authorization stage has no direct counterpart in the U.S. system. We will see in the next section, however, that the U.S. Government, as the French, does have considerably latitude in the application of the authorized budget. Nevertheless, there is a moral obligation in the U.S. to follow the President's itemized budget requests which accompany lump sum appropriations even though the itemization is never included in the final bill.[542]

---

[539] Rivoli, p. 31; Lequéret, p. 37. [540] Rivoli, p. 31.

[541] Ibid.

[542] Louis Fisher, "Presidential Spending Discretion and Congressional Controls." reprinted from the Symposium on Administrative Discretion (Durham, N.C.; Law and Contemporary Problems, Winter 1972), p. 137.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

U.S. Budget Authority and its Components

A most important difference between the two budgets under consideration here is the subject of the votes by the two legislatures. In the French budget process, it is the voting on crédits which grant the Government the right to pay expenditures in that fiscal year which are the primary subject. In the United States budget process, it is the voting on requests for budget authority which represent the crucial factor. Budget authority represents the largest aggregate figure in the budget and only through the granting of budget authority does the Government have the right to incur obligations resulting in future outlays. The concept of budget authority, over the past several years, has been known by several names. For many years, it was known as "new obligational authority." Then, when the unified budget was adopted and introduced for fiscal year 1969, "new obligational authority" referred to authority to incur obligations in the expenditure account only, while authority to incur obligations on the loan account was called "loan authority." The usage described continued through the budget for fiscal year 1973. The Congressional Budget and Impoundment Act of 1974, then, redefined the term, "Budget authority" and its interpretation follows. According to the act, "budget authority" refers to "authority provided by the law to enter into obligations which will result in immediate or future outlays involving Government funds, except that such term does not include authority to insure or guarantee the repayment of indebtedness incurred by another person or government.[543]

[543] Congressional Budget and Impoundment Control Act of 1974, Title I, sec. 3.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

There are three basic types of budget authority: appropriations, contract authority and authority to spend debt receipts. There can be, also, reappropriations of previously granted authority. The first type, appropriations is the most common and represents practically the entire amount of all current authority, which is simply the authority to obligate funds in the current year only. However, appropriations may be one-year, multiple year, no-year, current indefinite, permanent or supplemental. Any of these kinds of appropriations provide authority to incur obligations and payment of these obligations from the general fund of the Treasury or from the special funds. The one exception to this rule is in the case of contract authority previously granted. Only then, the appropriations is not a part of the budget authority provided for that year but just serves to permit payment of the previously incurred obligation. The appropriation is said to be to "liquidate contract authority."[544]

Those types of appropriations with 'year' in their title refer to the length of time in which an agency is permitted to incur obligations; the most common are the one-year appropriations and are used for salaries and other day-to-day agency spending. Multiple year appropriations represent a small proportion of total appropriations and have been used for special study commissions and research projects of the Public Health Service. No-year appropriations are used "where a time limit would not add measurably to the system of spending controls."[545] They are used primarily to authorize construction contracts such as those undertaken by the U.S.

---

[544]Brite & Halper, p. 601; U.S. Library of Congress, Congressional Research Service, Budget Concepts and Terminology: The Appropriations Phase, by Louis Fisher, Specialist, Government and General Research Division, H.J. 2005 U.S., 74-210 GGR (21 November 1974): 3-12.

[545]Brite & Halper, p. 602.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Corps of Engineers. In spite of the time limit on the Government's right to incur obligations under these three types of budget authority, there is no time limit on the payment of the obligation if it has been incurred within the specified period within the specified amounts.

Current indefinite appropriations, on the contrary, are a type of appropriation which is available on a one-year, multiple-year or no-year basis but both the obligation and the subsequent outlays are indefinite in amount. Permanent appropriations may be definite or indefinite in amount but, in either case, additional amounts become available from year to year under existing law without any new action by Congress. It is for this reason, that permanent appropriations have earned the title as one form of "backdoor authority." The three main forms of backdoor authority, to which we shall return, are contract authority, borrowing authority, and mandatory entitlements.[546] Three examples of permanent appropriations are the interest on the public debt, Social Security benefits and general revenue sharing, of which the first example is the largest.

Supplemental appropriations are the result of additional requests to Congress after the passage of the initial legislation. Some of these requests do appear in the initial budget under the heading "prepared for later transmittal" but others are simply the result of the shortage of funds do to unforseen circumstances such as floods or earthquakes, or changes in agency programs. Some supplemental budget requests, also, are necessary if only because of inaccuracies in forecasting the

---

[546] U.S. Congress, Joint Study Comm. on Budget Control, Interim Report repr. in Improving Congressional Control over the Budget (27 Mar. 1973), p. 181; U.S. Congress, Senate, "Backdoor Spending Authority" by Allen Schick in Improving Congressional Control over the Budget (27 Mar. 1973), pp. 293-302, see 293.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

needs of government agencies and programs at least one year in advance. However, an overuse of them, or what is known as deficiency appropriations has been met with extreme disfavor in both countries. Before the budget introduced by the 1959 ordonnance in France, there were frequent complaints of expenditure abuse. In 1955, for example, André Burlot, Acting Reporter of the Finance Committee, complained to the National Assembly about voting on crédits amounting to one hundred billion francs pertaining to the budget of 1854.[547] Burlot accused the Government of deliberately minimizing expenditures for 1954 initially, in order to favorably impress the public and the parliamentary assembly. In fact, said the Acting Reporter, the only reason the Government is asking for one hundred billion now is so that the 1955 budget will appear in a favorable light.

In the United States, such deficiency appropriations which are requests for appropriations "to make up an overexpenditure of amounts previously appropriated" have been curbed by the so-called AntiDeficiency Act of 1906.[548] The Act not only expressly prohibits the Executive Branch from spending monies in excess of sums appropriated, but provides for sanctions to those concerned of removal from office with or without at least a one hundred dollar fine or one month's imprisonment.[549] The penal provisions, however, have never been invoked.[550]

However, supplemental appropriations, or requests for additional

---

[547] France. Assemblée Nationale, 1re Séance du Mars 1955, Débats de 2e Lég. (vol. 32), Session de 1955, "Ouverture et annulation de crédits sur l'exercice 1954 et ratification de décrets." p. 1003.

[548] Brundage, p. 78.

[549] AntiDeficiency Act, Section 3679 of the Revised Statutes, repr. in Brundage, p. 283.

[550] Brundage, p. 78.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

appropriations in order to carry out programs authorized by previously inadequately funded are still very much in evidence. It has been observed, by one writer that these supplemental bills do not receive adequate attention in the U.S. Senate. "In 1966, when such important bills as District of Columbia ($460 million), Interior ($1.3 billion), State-Justice ($2.3 billion), Second Supplemental for 1966 ($2.8 billion), and the Supplemental for 1967 ($5.1 billion) were reported one day and passed within forty-eight hours, there was little time for a Senator to review the Committee's work."[551]

The second type of budget authority, contract authority, permits an agency to incur obligations but not to pay these obligations. Thus, it must be followed by an appropriation authorizing payment which is excluded from budget authority as explained. Generally, this authority is used when it is expected that the obligation and the payment will be separated by at least one year. Contract authority has earned the title of another form of backdoor authority because even though, technically, subsequent action in appropriation bills is required to liquidate the obligation, there is little control possible as the obligations previously incurred must be paid.

The third type of budget authority, "borrowing" or "loan authority" or "authority to spend from debt receipts" is, also, another form of backdoor authority. The general criteria for the term, "backdoor," is that it encompasses any spending authority which is provided other than through appropriations considered by the appropriations committees.[552] The

---

[551]Stephen Horn, Unused Power, The Work of the Senate Committee on Appropriations (Wash. D.C.: Brookings Inst.), Chapter 7, repr. in Improving Congressional Control, (27 Mar. 1973), p. 495.

[552]U.S. Congress, Joint Study Comm., Interim Report, p. 181.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

authority to spend debt receipts may take three forms though they are all used most often to finance lending and other Government enterprises such as the Commodity Credit Corporation.[553] There is the authority to spend public debt receipts which may be granted in order that the Treasury may make receipts available to a given agency or enterprise; there is authority to spend agency debt receipts which may be granted a Government-owned corporation or agency and, then, means it can borrow directly from the public; or, there is reinstated authority to spend from debt receipts which occurs when notes which have been issued by a Government enterprise are held by the Treasury and are later cancelled. The cancellation of notes restores the previous authority granted the agency and permits further outlays to be made.[554]

Fianlly, there can be reauthorizations in the same sense as there can be reappropriations. The effect, in either case, is the same as if new budget authority or new appropriations were voted in their place. These actions continue the avilability of part or all unused balances which would otherwise expire.

Relationships between Appropriations and Expenditures in France and U.S.

From our description of budget authority above, it is clear that outlays will differ from budget authority in any given year because payment of a claim and the authority to incur that obligation are two different things occurring at different points in time. Table 17, Relation of Expenditures or Outlays to New and Prior Budget Authority and Relative Share of Prior Budget Authority 1954-1971, reveals that anywhere from one third to one half of outlays in any given year are the

[553] Brite and Halper, p. 604. [554] Ibid., pp. 604-605.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 17

RELATION OF EXPENDITURES OR OUTLAYS TO NEW AND PRIOR BUDGET AUTHORITY AND RELATIVE SHARE OF PRIOR BUDGET AUTHORITY 1954-1971

(Money Amounts in Millions of Dollars)

Year	Expenditures or Outlays	Budget Authority		Relative Share of Prior Authority in Outlays
		New	Prior	
1954	$ 98,587	$ 41,074	$ 37,513	47.7
5	65,570	36,382	29,188	44.5
6	62,408	37,923	24,485	39.2
7	65,865	42,711	23,154	35.2
8	71,807	47,861	23,946	33.3
9	73,934	49,671	24,263	32.8
60	77,030	51,708	25,322	32.9
1	79,816	53,550	26,266	32.9
2	80,865	54,551*	26,314	32.5
3	92,539	64,455	28,081	30.3
4	98,802	56,450	42,353	42.9
5	97,900	70,541	27,359	27.9
6	99,687	72,047	27,640	27.7
7**	150,729	109,375	41,354	27.4
8	179,540	128,761	50,779	28.3
9	186,062	131,282	54,780	29.4
70	195,272	109,385	85,887	44.0
1	200,771	104,836	95,935	47.8

SOURCE: U.S., President, Bureau of Budget and Office of Management and Budget, U.S. Budget for Fiscal Years 1954-1971. Figures are initial estimates.

*Excludes $667 million interfund transactions not necessarily deductible from new budget authority.

**Beginning with 1967, figures include the trust funds. Prior year figures are for federal funds, only.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

result of decisions made by Congress in the past. The French system has avoided the problem of past decisions infringing on present outlays in most cases, except for program authorizations, by insisting that the obligation and the payment occur within the same fiscal year, or else the crédits are annulled. The practice follows directly from the French observance of the rule of the annuality of the budget. Nevertheless, certain crédits may be left open into the following year. They include those crédits for capital expenditures and the fonds de concours or, cooperative funds, which will be discussed in the next chapter. Table 18 below, indicates the sums and shares of carryover crédits in total expenditures for the general budget and the annexed budgets for the period, 1961 to 1971.

TABLE 18

FRENCH CARRYOVER CRÉDITS (REPORTS DE CRÉDITS)
(in millions of francs)
1961 - 1971

General Budget Crédits from preceding period available in current year			Annexed Budgets Crédits from preceding period available in current year	
total	% of GB expenditures	Year	total	% of AB expenditures
4618	6.9	1961	521	4.5
4826	6.3	2	372	3.0
4154	4.6	3	369	3.0
3806	4.2	4	294	2.1
3852	3.9	5	175	1.2
3959	3.7	6	237	1.4
3532	2.9	7	336	1.9
4922	3.7	8	343	1.7
7440	5.0	9	698	3.1
7902	4.9	70	633	2.4
7732	4.4	1	408	1.4

Source: French loi de finances (Règlement) 1961 to 1971.

Obviously, the fraction of expenditures which carryover crédits occupy in France is considerably smaller than the similar concept for the

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

U.S. described in Table 17. Yet, the Cour des Comptes or Court of Accounts in France complained in 1971, that the amounts of crédits carried over to the following year though less than previously, remains an important amount especially for ordinary expenditures.

Zero-Base Budgeting in the U.S.

To counteract the tendency for carryover budget authority and, therefore, to add to congressional control over the budget, Congress has been considering a method of mandatory program evaluations or zero-base reviews. On 4 August 1976, the Senate Operations Committee approved S2925 which was nicknamed the "Sunset" bill.[555] The bill required complete program evaluations to take place every five years and provided a detailed method of grouping programs to lighten work loads. Grouped programs would be formed by function to permit coordination of similar programs during the same year. Any program not reenacted by the scheduled date would be automatically terminated. Programs exempted from provisions of the bill included interest payments on the Federal debt, Social Security and retirement programs. The provisions for reauthorization and termination schedules, also, would not be applicable to substantive areas of law such as antitrust and civil rights, though funding for agency regulatory activities are subject to examination. It would be up to the Comptroller General of the GAO to identify for Congress all the authorized expenditures and regulatory activities which fall within the scope of the act.

---

[555]Congressional Quarterly "Senate Committee Reports 'Sunset' Bill" by Mary Eisner Eccles, CQ Weekly Report, vol. XXXIV, No. 33, (14 Aug. 1976): pp. 2177-2244 (Wash. D.C., 1976): 2238-2239.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

The aims of zero-base budgeting as incorporated into the "sunset" bill and implemented by the legislature would be the same as if OMB and the rest of the executive agencies adopted it. According to one critique, it is hoped that (1) the focus would be placed on individual aspects of Government spending, (2) the unspoken rule of maintaining Government programs from year to year would end, (3) "uncontrollable growth" would end through more frequent assessment of costs against program goals, and (4) the consolidation of overlapping programs, the elimination of unnecessary ones, the general provision of more efficiency and a better use of the taxpayers' money would result.[556]

The difference between zero-base budgeting by the Executive Branch and that by the legislature is rather in the procedures followed. Peter A. Pyhrr who helped introduce the zero-base budgeting procedure in the State of Georgia, has claimed that zero-base budgeting requires "each manager to justify his entire budget request in detail, and puts the burden of proof on him to justify why he should spend any money."[557] A design package in each activity or operation is proposed by each manager. The package includes an "analysis of cost, purpose, alternative courses of action, measures of performance, consequences of not performing the activity, and benefits."[558] In addition, the manager must identify a minimum level of spending, and other design packages incorporating higher levels of spending for that activity. Finally, the various decision packages must be ranked in order of importance.

---

[556]Congressional Quarterly, "'Sunset' Bills: An Eye on Big Government" by Judy Gardner, CQ Weekly Report vol. XXXIV, No. 17 (24 April 1976): 955-956.

[557]Peter A. Pyhrr, Zero-Base Budgeting (New York: John Wiley & Sons, 1973), pp. xi, 195.

[558]Ibid., p. xi.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

The French System of l'Exercice

In France, there has been a deeper involvement with the time frame of the budget year rather than with an alternative budget technique as described above. The French decision in this regard has evolved from the system known as l'exercice with respect to recording expenditures and receipts in the budget. The system recorded the body of expenditures and receipts forecst and authorized for one year whether or not they were executed within the twelve month period or later. In other words, a complementary period extended the twelve months alloted to the financial year and the closing of the budget. Gradually, however, the inconvenience of the complementary period occasioned by the lateness required in the closing of the budget led to shortening the complementary period. Since the Fourth Republic, though the word l'exercice has been conserved, the formula of la gestion has been adopted.[559] It was first applied to receipts which are included in the budget upon collection as in the U.S., and then, to expenditures, which according to article 13 of the 1959 Law can be annulled by decision, arrête of the Minister of Finance after agreement of the concerned minister, if they arise from crédits which have been unobligated by the end of the financial year.

In the system of la gestion or management, which is followed in the United States and France, operations of expenditures and receipts are followed to the last day of the financial year, at which time, both authorization and execution of the budget are considered closed. The U.S. unified budget, it will be observed, is working towards an accrual basis for its presentation, in which case, the difference between the two systems

[559] Trotabas with Cotteret, pp. 106-108.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

described will disappear. However, in 1969, when receipts were recorded on a cash collections basis and all expenditures, except interest, were recorded on a checks issued basis, this was not true. In such a system, claims Louis Trotabas, the French economist, it is possible to hasten receipts or to delay payment of certain expenditures, disguising the real picture of budgetary balance at the end of the period. On the other hand, the system may be too rigorous because budgetary authorization is reneged at the end of the period and there is no longer the opportunity for execution of any expenditure or receipt.[560]

Unexpended Balances of U.S. Budget Authority 1961-1971

In sum, there is the opportunity under both nation's present budget systems of affecting the final or closing balance of the year. Nevertheless, the problem does seem to be compounded in the U.S. by the huge sums of unexpended balances which can be the result of both obligated and unobligated budget authority that has not been spent and is still available for conversion into outlays.[561] Table 19 contrasts budget authority granted in any fiscal year between 1961 and 1971 with outlays and net obligations incurred in that year, and unexpended balances at the end of that fiscal year. If one compares total unexpended balances of budget authority with budget authority granted in the same year, one finds that only since the incorporation of the trust funds into the Executive budget (1967 for this table), have they exceeded the budget authority granted and by approximately the same proportion up until 1971. If one compares, total unexpended balances to outlays, one finds that they had already begun to exceed the latter in 1965.

---

[560] Ibid., p. 106.

[561] Brite and Halper, p. 607.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 19

UNITED STATES ACTUAL BUDGET AUTHORITY, UNEXPENDED BALANCES AND NET OBLIGATIONS INCURRED 1961-1971

(Millions of Dollars)

Year	Budget Authority Granted*	Outlays	Unexpended Balances at End of Fiscal Year Total/Obligated	/Unobligated	Net Obligations Incurred
1961	$ 86,675	$ 81,515	$ 78,307	$ 37,695 $ 40,612	$ 85,111
2	92,862	87,787	79,265	40,102 39,163	92,011
3	102,283	92,642	87,617	42,308 45,309	94,720
4	101,103	97,684	89,344	42,621 46,723	98,698
5	106,608	96,507	97,061	49,607 47,454	104,606
6	126,439	106,978	114,410	63,151 51,259	120,477
7	182,562	158,414	213,513	79,023 134,490	168,175
8	190,649	178,862	223,478	81,336 142,142	181,844
9	196,167	184,556	225,572**	83,967** 141,605	185,147
70	212,973	196,588	238,111**	81,662** 156,449	194,915
1	236,406	211,425	260,921	86,078 174,843	215,924

SOURCE: U.S. President, Bureau of Budget and Office of Management and Budget, U.S. Budget for Fiscal Years 1963-1973. Fiscal years 1961-1966 include administrative budget figures, while 1967-1971 refer to unified budget figures.

*Excludes appropriations to liquidate contract authority.

**Does not include unfunded obligated balances of fourteen million dollars in 1969 and fourteen million dollars in 1970.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Table 20, U.S. Unexpended Balances and Net Obligations as Percentage of Outlays 1961-1971, based on the data of the previous table, indicates that total unexpended balances since 1965 have been as much as 34.8 percent higher than outlays. The Table indicates, also, that as a percentage of outlays, unobligated balances jumped from approximately 48 percent in 1966 without the trust funds to 85 percent in 1967 with the trust funds. Net obligations incurred exceeded outlays in every year but 1970 of the table thus revealing the large unobligated balances in the trust funds at the end of each fiscal year. Though it does not appear total unexpended balances have been increasing any more rapidly than any other category in the table, the fact that they began as such a huge sum has meant their rise from approximately 98 percent of 1961 fiscal outlays to over 123 percent of 1971 outlays. Such extravagant carryover balances, larger than the budget, itself, do not mean that they will be spent entirely in the following fiscal year but they do imply an important commitment on the budgets for several fiscal years into the future.

It is this tendency, described above and illustrated by Table 20, which the "sunset" bill might succeed in diminishing if the applicable programs more than offset the inapplicable ones which include Social Security and retirement programs. The "Sunset" bill as the Congressional Budget and Impoundment Control Act of 1974, is seeking a way to limit obligational authority as well as expenditures in any given year. The Joint Study Committee had suggested this need in 1973 when it remarked, "The presence of large balances of funds which were committed in prior years in whole, or in part, together with provision for ongoing programs which depend upon claims made upon the Government, make it increasingly difficult for either the Executive or the Congress to control budgetary totals."[562]

[562]U.S. Congress, Joint Study Comm., Interim Report, p. 183.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 20

UNITED STATES UNEXPENDED BALANCES AND NET OBLIGATIONS

AS PERCENTAGE OF OUTLAYS

1961-1971

Year	Unexpended Balances at End of Fiscal Year			Net Obligations Incurred
	Total /	Obligated /	Unobligated	
1961	96.1	46.2	49.8	104.4
2	90.3	45.7	44.6	104.8
3	94.6	45.7	48.9	102.2
4	91.5	43.6	47.8	101.0
5	100.6	51.4	49.2	108.4
6	106.9	59.0	47.9	112.6
7	134.8	49.9	84.9	106.2
8	124.9	45.5	79.5	101.7
9	122.2	45.5	76.7	100.3
70	121.1	41.5	79.6	99.1
1	123.4	40.7	82.7	102.1

SOURCE: See above, Table 19.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

CHAPTER 10

THE EXECUTION

Overview of Chapter 10

It is the execution phase of the budgetary process which, probably, has received the most attention in recent years. Nevertheless, no coherent set of rules has emerged either to guide the executive in his role of spender, or to guide the legislature in its role of oversight during the period. In this chapter, the new approach to spending as an obligation on the part of the executive is examined along with a broad sketch of the existing administrative controls in each country. Most of the analysis of the execution phase presented here, however, centers upon persistent examination of reasons why the initial budget figures in each country will differ from the finally executed ones. To further this study, the intrayear variations are classified into three groups: legislative changes (common to the U.S. only), technical reasons and forecasting errors. Both qualitative and quantitative evidence is offered to support several findings: (1) In the U.S. for the past fifty years, the Executive Branch has had less influence on intrayear variations in budget outlay figures on average than the legislature; (2) There is more budgetary statistical data available on the execution phase in France than in the U.S.; (3) Budgetary adjustment techniques for effecting outlays for fiscal policy reasons are more versatile in France than in the U.S.; and (4) Intrayear variations in the budget balance as a proportion

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

of gross private domestic product are smaller in France for nine of the twelve years from 1960 to 1971.

The Budget Year

The execution phase of the budget begins once the President has signed the appropriation bill into law in the United States or once the President of the Republic has promulgated the authorized loi de finances in France. The execution phase, in a time sense, begins with the new start of the fiscal year or October 1 in the U.S., or the start of the calendar and fiscal year or January 1 in France. In both countries, the execution of the budget is an executive responsibility. That fact is clearly recognized in France but it is not so clearly recognized in the U.S. where Congress has intervened in execution by modifying previous decisions as well as by injecting independent checks on specific transactions.[563] Indeed, Louis Fisher, a Specialist with the Congressional Research Service of the Library of Congress, has suggested that the new Congressional Budget Office "reports would be sharpened by regular hearings on budget execution by the Budget Committees, the Appropriations Committees and the other committees devoted to oversight questions."[564]

Rules for Spending and the Balance of Power

A second point of comparison between the two systems has to do with the whole conception of the balance of power of the executive and the legislature in governmental budgeting and the meaning of legislative

---

[563] Burkhead, p. 340.

[564] Louis Fisher, Presidential Spending Power, (Princeton: Princeton University Press, 1975), p. 263.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

authorization as opposed to the objectives of budget execution. Jesse Burkhead has suggested that budget execution should "preserve the intent of the legislature but, at the same time, should maintain flexibility at all levels of administration."[565] The statement implies that the budget should not simply quantify in financial terms its budget authorizations but legislators should express their meaning in terms of program objectives as well. In the French system, these dual purposes are more easily resolved by placing the responsibility for the broad categories of expenditures and program definitions to the vote of Parliament while leaving the finer detail of chapter crédits and their control entirely to the decrees of allocation and the supervision of the ministries, particularly, the Ministry of Economy and Finance.

In France and in the U.S., the original conception of legislative authorization was that expenditures authorized by the voting body form a ceiling only, and not an obligation to spend.[566] From a legal point of view, the budget authorizes Government to forecast expenses but obliges Government to collect receipts. In the French view, crédits are authorizations to spend and not obligations to spend.[567]

Nonetheless, the legislatures of the two nations have not wholly accepted these opinions even though the executive branch in each has succeeded in maintaining the position for many years. In the U.S., for

---

[565] Burkhead, p. 342.

[566] Duverger, Finances publiques, p. 305; Robert Ash Wallace, Congressional Control of Federal Spending (Detroit: Wayne State Univ., 1960), Excerpts repr. in "Hearings before the Subcommittees on Budgeting, Management and Expenditures of the Committee on Government Operations," U.S. Senate, 93 Cong., 1st Sess., May 1,7,9, 1973, part 2, p. 426.

[567] Julien Laferrière and Marcel Waline, Traité Élémentaire de Science et de Legislation Finançières, (Paris: L.G.D.J., 1952), p. 11.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

example, Robert Ash Wallace has reminded us that "appropriations give authority to spend; they do not direct that expenditures be made."[568] Wallace quoted Franklin D. Roosevelt, as saying, "the mere fact that Congress, by the appropriation process, has made available specified sums for the various programs and functions of the Government is not a mandate that such funds must be fully expended."[569]

This is certainly not the position taken in the Congressional Budget and Impoundment Control Act of 1974 which requires the President to report to Congress any time that he determines that all or part of any budget authority is not required and gives Congress the right to overrule the Executive, thus, obliging him to spend.

The new turn of events is particularly interesting in the light of prior experience. According to Jesse Burkhead, "Historically, systems of budget execution have been designed primarily to assure that the financial limitations expressed by the legislature are adhered to. Budget execution is traditionally conceived as almost wholly a matter of financial control, and its success is very often judged in terms of preventing deficiencies and effecting savings during the fiscal year."[570] In other words, the concern is with overspending rather than underspending, though no consideration of the means of financing the spending is stipulated. Chapter 12 will develop further this aspect of the management function of the Executive Branch.

---

[568] Wallace, p. 426.

[569] Ibid., p. 427.

[570] Burkhead, p. 343.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Administrative Control in the French System

There is a third general difference between the interpretation of the execution phase in France versus the U.S., though recent events appear to be narrowing the difference.[571] In France, the execution phase is dominated by the idea of control. The idea is so pervasive in France that one economist has said that it leads to a slower pace of execution than otherwise and, thus, a waste of public monies.[572] This control takes place both before the fact in a preventive sense, and after the fact, once the procedure of expenditure or receipt is totally realized. But to understand the roles which the various persons who "control" play in the process, it is necessary to explain the steps of procedure in the execution of the budget. We will explain it in terms of four major steps, though some French budget specialists claim that there are twenty-six separate operations involved between the moment an expense is authorized until it is executed.[573] Three of the steps concern a form of internal administrative control under the authority of the Minister of Finance, and the fourth and final step is actually realized in the course of the accounting phase and consists only of the payment.[574] The initial three steps are the engagement, the liquidation and the ordonnancement of the expenditure. These steps have similar counterparts in the U.S. system but are more formally defined in the legal literature of France. For example, all four steps of the procedure are clearly defined in articles 27 through 33 of the decree of 29 December 1962 which codified the General Rules of Public Accounting.[575]

---

[571] See Chap. 14. [572] Duverger, Finances publiques, p. 303.

[573] Cotteret and Émeri, p. 77. [574] Ibid., p. 100.

[575] Décret N°62-1587 portant règlement général sur la compatibilité

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

According to the Act, the engagement is the act by which the State becomes obligated whether it be by decree, contract or otherwise. The purpose of liquidation is to verify the existence of the obligation and to determine the amount of the expense. Once the liquidation has been accomplished, the ordonnancement gives the order to pay the obligation. Finally, the payment is the act by which the public organism is released from its obligation.[576]

The first phase or the engagement of the expense is undertaken by an administrator, called the ordonnateur principal, (minister) equivalent to the Secretary of the department in the U.S., or ordonnateur secondaire (regional or department head) equivalent to the Assistant Secretary or Comptroller of the Department in the U.S. One of the most important controls exercised at this stage is the requirement that the engagements of expenses cannot exceed the crédits assigned in the budgetary chapter. It is the Financial Controller of Engaged Expenses as described in Chapter 8, who is responsible for administrative and budgetary regularity through the issuance of a "visa" without which no expenses can be engaged. The Financial Controller has the right to issue or to refuse to issue a visa but only on the basis of the legality of the expense not its expediency or appropriateness.[577] At the departmental level, expenses below a certain amount are controlled bt le treéorier-payeur général.[578] They are, thus, promoted to the rank of Financial controller at the local level.

The legal definition of the engagement should be distinguished from the accounting definition in order to appreciate the steps of the budgetary

publique, Journal Officiel (30 Dec. 1962), repr. in Finances publiques: documents, pp. 29-58, ed. by F. Deruel (Paris: Librairie Dalloz, 1972).

[576] Ibid., pp. 33-34. [577] Lequéret, p. 42.

[578] Rivoli, p. 39.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

process. The legal engagement can be explicit or implicit, conditional or unconditional. However, the accounting engagement is the translation of the legal engagement on the accounting plan. It involves the procedure, bloquer, to block, in accounting, a sum corresponding to the probable amount of expenses which will result from the future legal engagement. In practice, it is accomplished by the establishment and the formal issuance of the visa permitting the engagement of expenses. With respect to investment expenses, the proposition of an accounting engagement is called a proposition of assignment of program authorizations. The accounting blocage can correspond also to authorizations which are transferred to a secondary ordonnator. Then, the French speak of propositions of delegation of engagement or of delegations of program authorizations. In each of the cases, the essential rule is that a prior visa must be obtained from the Financial Comptroller before the engagement of the expense can accrue. According to budgetary law this is the mainspring of the French system of control à priori.[579]

Following the engagement of the expense, the service must be performed or delivered for the liquidation, or the act which estimates the precise amount of the expense incurred. Then the third phase of the procedure is l'ordonnancement or mandatement depending on whether the order to pay is established by the principal or the secondary ordonnateur.[580] For several years the number of secondary ordonnators has been increasing as decontration has been spreading. Since 1961, in addition, the tendency has been to replace the mandatement of the public expense by these ordonnators by automatic mechanical means.[581]

---

[579]Lequéret, p. 42. [580]Rivoli, p. 40. [581]Ibid., pp. 99-100.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Moreover, there are certain expenses which can be paid without ordonnancement or in which this phase occurs after payment. This is the case, for example, with arrears on the public debt, the payment of pensions, and the repayment of taxes. There are also certain sums placed at the disposition of a régisseur d'avances in order to pay urgent expenses or expenses of a small amount. Finally, expenses of the armed forces are paid by a decree countersigned by the Minister of Economy and Finance and the Minister of the Armies. When all the exceptions are taken into account, one finds that in reality, about two-thirds of all public expenditures are paid without prior ordonnancement.[582]

The final step of the payment of the expenses is the beginning of the accounting phase. It is performed by a public accountant who belongs to the Public Accounting Administration of the Ministry of Economy and Finance. He must verify under his responsibility the regularity of the ordonnance or mandates he receives before proceeding to make payment.

An essential feature of the control of the execution of the budget in france is thus expressed in the rigorous separation between the ordonnators and the accountants. There are, however, three other fundamental features; (1) the absolute monopoly of the public accountants in the execution of receipts and expenses of public organisms; (2) the absolute monopoly of public accountants in the guidance and the conservation of public monies; and, (3) the obligation made by the public accountants to deposit their free funds with the Treasury. There are three levels or networks of public accountants and it is these networks which are the supports upon which reposes the organization of the Treasury. The first network consists of

[582]Lequéret, p. 41 and Rivoli, p. 40 footnote 1.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

those accountants of the Treasury who are charged by the Public Accounting Administration to affirm the addition of established entries at the level of each general treasury such as the accounting agent of the public debt and the accounting agent of industrial services of armament. They include the titles of General Payor, General Collector, General Treasury Payors and so forth. The second network of accountants are those charged with the collection of indirect taxes and customs duties while the third consists of accountants of the annexed budgets of the post and telecommunications office and the National Bank of Savings. There are other networks of accountants for the other annexed budgets and public establishments of an administrative, industrial or commercial character.[538]

Each of the public accountants are responsible both for the accounting and the control of the receipt and of the expense. The control concerns such things as the availability of crédits, the exact imputation of expenses, validity of the crédit and the excellence (qualité) of the administrator or his delegate. Moreover, the public accountants are not only responsible for these elements to their superiors, but they are personally responsible before the Audit Department, Cour des Comptes, in the event of bad accounting management. This financial responsibility is guaranteed in the general case by the posting of a bond, caution solidaire for the civil servant whose sum is set according to the decision of the Minister of Economy and Finance recognizing the importance of the accounting post.[584]

With respect to the accounting responsibilities of the public accountants, these matters have their origin a long time ago but are presently expressed in article 49 of the General Accounting Decree of 1962.

---

[583] Lequéret, pp. 44-45.

[584] Ibid., p. 45.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Accounting practices are organized in order to permit the knowledge and the control of budgetary operations and treasury operations, knowledge of the existing situation, the calculation of manufacturing and service costs, the determination of annual results and the integration of operations into the national economic accounting.[585] To pursue these ends, since 1970, the accounting for State operations has been placed within the framework of a general accounting plan. With the plan, and, therefore, the centralization of all public accounts, several documents on the financial condition of the State are established during the year. There is a confidential weekly document on the Treasury situation used for the information of the Minister of Economy and Finance and there is a monthly document on budgetary expenses by chapter issued for the internal use of the ministries. The Official Journal (Journal officiel) publishes a summary statement of the Treasury operations consisting of ten pages which provide a picture of the situation of different accounts,"Situation résumée des operations du Trésor," or S.R.O.T., as it is called more frequently.

When the execution of the budget is almost finalized in the month of May following the budgetary year, the last S.R.O.T. is issued. Before July 31st, the public accountants must forward their accounts on management to the Public Accounting Administration. These accounts record all operations of payment or collections which occurred during the period January 1st to December 31st. The central accounting agency of the Treasury utilizes this individual account information to establish the general balance of documents which constitutes a part of the general account of the Finance Administration.[586] Up until the budget of 1964, the final

---

[585] Deruel, p. 35.

[586] Lequéret, p. 49; Rivoli, p. 41.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

accounts of the ministries were established by the ministries, themselves. Since that date, however, they are established by the Public Accounting Administration. The final amounts concerning expenses and crédits are determined after the hearing of all parties with each ministry in September and October of the year following the budgetary year.[587]

From the various documents of the general account of the Finance Administration, the Ministry of Economy and Finance establishes the project of the loi de règlement which either opens the complementary crédits necessary to cover any excess of expenses or annuls any excess of crédits not used.[588]

Administrative Control in the U.S. System

Except for the project of the loi de règlement, the procedures which have been described in the French system have their counterparts in the U.S. system though the emphasis on control mentioned above is considerably less and the movement towards centralized accounting procedures has occurred more slowly. After appropriation bills have been signed by the President, the Secretary of the Treasury directs The Treasurer of the U.S. to establish a credit equal to the aggregate amount of the appropriation. Disbursing officers are in charge of these credits through accounts maintained in the Federal Reserve Banks.[589] The legality of this procedure begins with a certified copy of the appropriation act signed by the President and forwarded to the Secretary of the Treasury. He, in turn, issues an appropriation warrant. The appropriation warrant must be

---

[587] Lequéret, p. 49, footnote 18; Rivoli, p. 41.

[588] Rivoli, p. 42.

[589] Burkhead, p. 102.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

countersigned by the Comptroller General of the U.S. Then the certified copies of the warrants are forwarded to the Executive Departments concerned and form the basis for setting up the appropriation accounts. It is only after the warrants have been issued and the Budget Bureau has determined the rate at which the agency may incur obligations that the agencies or departments may begin to use the appropriations or enter into contracts for goods and services.[590] It should be noted that the apportionments are made only with respect to the total amount to be obligated within the specified period and not according to particular projects or objects of expenditure.[591]

Once the agency is advised of approval of the monthly or quarterly apportionments, allotments for specified objects are then made to field and other operating units by the head of the administrative agency in Washington. These sums, of course, must be kept within the limits of the initial apportionment. When the field agencies incur obligations, called "encumbrances,"[592] they are mainly estimates and adjustments are later made for the actual amounts when vouchers are approved for payment. As payment demands are made, the appropriate administrative officers in each agency certifies the payment and directs the disbursing officers to issue checks to liquidate the obligation. Virtually all current bills of the Government are paid by bonded disbursing officers to whom funds are advanced by the Secretary of Treasury on accountable warrants -- equivalent to the procedure of the visa in France. As is the case with the visa, accountable

---

[590] William J. Brown, The Federal Budgeting & Appropriations Process, p.5, (New York: Dep't. of Economic Research, The American Bankers Association, 1967), p. 30.

[591] Bartelt, p. 61.

[592] Ibid, p. 61.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

warrants are simply authorizations to draw money from the Treasury and do not represent payments in themselves. In addition to the warrant, the disbursing officer must have two additional things before a payment may be made. He must have a voucher properly certified by an authorized administrative officer indicating that services have been performed or the goods received and he has a sufficient balance to his credit on the Treasurer's books.[593]

There is one other way in which the Government's bills can be paid: by the Treasurer of the United States "who draws checks in favor of claimants on authority of settlement warrants."[594] Settlement warrants are issued by the Comptroller General and may be paid by the Treasurer directly or through disbursing officers. Disbursing officers do not have responsibility for the legality of payments but they must maintain accounts and render them for audit and settlement by the Comptroller General.[595] Certifying officers who sign vouchers for payment, on the other hand, are liable for performance in accordance with the law and are responsible for adequacy of balances available to meet the payment.[596] Accounts are maintained centrally by the Treasurer and, individually, by each department and agency. As is true in France, the receipts and expenditures of the Federal Government, as reflected in the accounts maintained by the Treasurer, are reported in summary form in a Daily Treasury Statement and a Monthly Treasury Statement. After the close of each fiscal year, the Treasury publishes a document similar to the last S.R.O.T. in France, which is known as the, "Combined Statement of Receipts, Expenditures and Balances of the U.S. Government." It contains disbursements and unexpended

---

[593] Ibid., p. 64. [594] Ibid., p. 64; Burkhead, p. 103.

[595] Brown, p. 30; Burkhead, p. 103.

[596] Brown, p. 30; Burkhead, p. 103.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

balances prepared on the basis of appropriations for the year. Until now, the Combined Statement has been transmitted to Congress at the beginning of each session, which was six months after the close of the fiscal year.[597]

Comparative Differences between Initial and Executed Budgets

In the discussion of the execution of the budget so far, legislative intent as expressed in the initial authorization procedure is assumed to have been observed. However, there are two main reasons why the results of the execution of the budget described in the French S.R.O.T. may not agree with the initial forecasts of expenditures and receipts of the budget. First, there are technical reasons, such as the fonds de concours or cooperative funds, reports de crédits or carryover crédits, transferts de crédits, virements and répartitions or transfers of crédits in space, apportionment of appropriations or transfers in time and rétablissements de crédits or the practice of netting crédits against receipts. Second, there are the difficulties associated with exactly forecasting receipts and expenditures, either because of underevaluation of expenditures by the ministries or because of the technical limitations of forecasting methods.[598] Both the technical and forecasting reasons for variation in budget reporting will be investigated and compared to similar U.S. practices after some quantitative evidence of the relative size of intrayear variations in budget totals in the United States alone are presented. These differences, which are peculiar to the U.S. only, arise because substantial changes are made by the legislature before the initial budget becomes law.

---

[597]Ibid. [598]Lequéret, pp. 37-40; Rivoli, pp. 33-36.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Legislative changes in the U.S.

Tables 21 and 22, covering the years 1925 through 1949 and 1950 through 1971, respectively, are concerned with Comparative Data on Initial, Supplementary and Actual U.S. Outlays and Receipts. In the discussion of the two tables here, interest is centered primarily on the comparison between the outlay changes effected by the legislature and, hence, the comparison between the columns headed initial and supplementary estimates for outlays. A second point of interest are the changes which the Executive Branch undertakes in the execution of the budget either voluntarily or involuntarily occurring because, for example, economic conditions have changed. To study the second point, attention will be directed to the two columns headed supplementary and actual outlays. Finally, so that we may juxtapose the intrayear variations in the U.S. budget with those occurring in the French budget, we present Tables 23 and 24 which are based upon the same data as the two earlier tables, but translate the changes into percentage terms.

From an examination of the initial and supplementary estimate figures and relative changes described in Tables 21 and 23, for the earlier period, 1925 to 1949, it is evident that the legislature frequently made extensive changes in the proposed executive budget. According to Table 23, the average change in outlays effected by the legislature was more than 20 percent higher than the initial executive budget estimate over the period. It is apparent that the figure is substantially smaller for the later period, 1950 through 1971, described in Tables 22 and 24, where the average change is less than 2 percent higher. It is significant, also that the frequency of reductions in budget outlays produced by the legislature doubled the latter period occurring nine times in twenty-two years

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 21

COMPARATIVE DATA ON INITIAL, SUPPLEMENTARY AND ACTUAL UNITED STATES

OUTLAYS AND RECEIPTS 1925-1949 (Millions of Dollars)

Year	OUTLAYS Estimate Initial	OUTLAYS Estimate Supplementary	OUTLAYS Actual	RECEIPTS Estimate Initial	RECEIPTS Estimate Supplementary	RECEIPTS Actual
1925	$ 2,766	$ 3,062	$ 3,063	$ 3,694	$ 3,602	$ 3,780
6	2,783	3,118	3,098	3,641	3,881	3,963
7	2,979	3,078	3,434	3,825	4,027	4,129
8	3,009	3,621	3,103	3,773	4,076	4,042
9	3,809	3,252	3,299	3,809	3,832	4,033
30	3,228	3,393	3,642	3,841	4,249	3,841
1	3,468	3,761	3,987	4,226	3,612	3,103
2	3,792	4,284	4,814	3,852	2,204	1,977
3	3,889	4,007	5,143	2,474	2,367	2,080
4	3,697	9,891	7,105	2,667	3,260	3,116
5	4,487	8,581	7,376	3,975	3,712	3,800
6	8,520	7,645	8,880	3,992	4,411	4,116
7	6,753	8,481	8,001	5,654	5,828	5,294
8	6,158	7,409	7,626	7,294	6,321	6,242
9	6,869	9,492	8,707	5,919	5,520	5,165
40	8,996	9,099	8,998	5,669	5,166	5,387
1	8,424	13,202	12,711	5,548	7,013	7,607
2	17,486	30,576	32,491	8,275	11,944	12,799
3	58,928	80,437	78,182	16,487	22,976	22,282
4	104,129	95,951	93,744	33,081	41,186	44,149
5	97,954	98,912	100,405	40,769	45,730	46,457
6	82,530	67,394	63,714	41,255	38,609	43,038
7	35,125	42,523	42,505	31,513	40,230	43,259
8	37,528	37,728	33,791	37,730	45,210	42,211
9	39,669	40,180	40,057	44,477	39,580	38,246

SOURCES: U.S., President, Bureau of Budget, U.S. Budget for Fiscal Years 1925 to 1951 (administrative budget).

NOTES: Supplementary estimate appears one year after fiscal year initial estimate, and actual appears in budget two years later. Debt retirement is excluded from outlays for fiscal years 1925-1934 and 1939-1943. "Emergency" expenditures are included in outlays beginning with supplementary estimate, 1935.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 22

COMPARATIVE DATA ON INITIAL, SUPPLEMENTARY AND ACTUAL UNITED STATES OUTLAYS AND RECEIPTS 1950-1971 (Millions of Dollars)

Year	OUTLAYS Estimate Initial	OUTLAYS Estimate Supplementary	OUTLAYS Actual	RECEIPTS Estimate Initial	RECEIPTS Estimate Supplementary	RECEIPTS Actual
1950	$ 41,858	$ 43,297	$ 40,156	$ 40,985	$ 37,763	$ 37,045
1	42,439	47,210	44,633	37,306	44,512	48,143
2	71,594	70,881	66,145	55,138	62,680	62,128
3	85,444	74,593	73,982	70,998	68,697	64,593
4	78,587	70,902	67,772	68,665	67,628	64,655
5	65,570	63,504	64,570	62,642	59,000	60,390
6	62,408	64,270	66,540	60,000	64,500	68,165
7	65,865	68,900	69,433	66,300	70,628	71,029
8	71,807	72,788	71,936	73,620	72,400	69,117
9	73,934	80,871	80,697	74,400	68,000	68,270
60	77,030	78,383	76,539	77,100	78,600	77,763
1	79,816	78,945	81,515	84,000	79,024	77,659
2	80,865	89,075	87,787	82,333	82,100	81,409
3	92,537	94,311	92,642	93,000	85,500	86,376
4	98,802	98,405	97,684	86,900	88,400	89,459
5	97,900	97,481	96,507	93,000	91,200	93,072
6	99,687	106,428	106,978	94,400	100,000	104,727
7	150,729	167,611	158,414	152,600	161,895	149,591
8	179,540	175,635	178,862	175,037	155,830	153,676
9	186,062	183,701	184,556	178,108	186,092	187,792
70	195,272	197,885	196,588	198,686	199,386	193,743
1	200,771	212,755	211,425	202,103	194,193	188,392

SOURCES: U.S., President, Bureau of Budget and Office of Management and Budget, U.S. Budget for Fiscal Years 1950 to 1973.

NOTES: Administrative budget figures used through 1966, Federal and trust funds for 1967 and 1968, and the unified budget for 1969-1971. Supplementary estimate appears one year after fiscal year initial estimate, and actual appears in budget two years later.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 23

COMPARATIVE DATA ON RELATIVE CHANGES IN INITIAL, SUPPLEMENTARY AND ACTUAL UNITED STATES OUTLAYS AND RECEIPTS 1925-1949

	OUTLAYS Percentage Variation			RECEIPTS Percentage Variation		
Year	Suppl. /Initial	Actual /Initial	Actual /Suppl.	Suppl. /Initial	Actual /Initial	Actual /Suppl.
1925	10.7	10.7	0	- 2.5	2.3	4.9
6	12.0	11.3	- 0.6	6.6	8.8	2.1
7	3.3	17.3	13.5	5.1	7.9	2.5
8	20.3	3.1	- 14.3	8.0	7.1	- 0.8
9	- 14.6	- 13.4	1.4	0.6	5.9	5.2
30	5.1	12.8	7.3	10.6	0	- 9.6
1	8.4	15.0	6.0	- 14.5	- 26.6	- 14.1
2	13.0	27.0	12.4	- 42.3	- 48.7	- 10.3
3	3.0	32.0	28.4	- 4.3	- 15.9	- 12.1
4	167.5	92.2	- 28.2	22.2	16.8	- 4.4
5	91.2	64.4	- 14.0	- 6.6	- 4.4	2.4
6	- 10.1	4.4	16.2	10.5	3.1	- 6.7
7	25.6	18.5	- 5.7	3.1	- 6.4	- 9.2
8	20.3	23.8	2.9	- 13.4	- 14.4	- 1.2
9	38.2	26.8	- 8.3	- 6.7	- 12.7	- 6.4
40	1.1	0	- 1.1	- 8.9	- 5.0	4.3
1	56.7	50.8	- 3.7	26.4	37.1	8.5
2	74.9	85.8	6.3	44.3	54.7	7.2
3	36.5	32.7	- 2.8	39.4	35.1	- 3.0
4	- 7.9	- 10.0	- 2.3	24.5	33.5	7.2
5	1.0	2.5	1.5	12.2	14.0	1.6
6	- 18.3	- 22.8	- 5.5	- 6.4	4.3	11.5
7	21.1	21.0	0	27.7	37.3	7.5
8	1.0	- 10.0	- 10.4	19.8	11.9	- 6.7
9	1.3	1.0	- 0.3	- 11.0	14.0	- 3.4
Mean	20.6	19.9	0	5.8	5.3	- 0.9

SOURCE: See above, Table 21.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 24

COMPARATIVE DATA ON RELATIVE CHANGES IN INITIAL, SUPPLEMENTARY AND ACTUAL UNITED STATES OUTLAYS AND RECEIPTS 1950-1971

	OUTLAYS Percentage Variation			RECEIPTS Percentage Variation		
Year	Suppl. /Initial	Actual /Initial	Actual /Suppl.	Suppl. /Initial	Actual /Initial	Actual /Suppl.
1950	3.4	- 4.1	- 7.3	- 7.9	- 9.6	- 1.9
1	11.2	5.2	- 5.5	19.3	29.0	8.2
2	- 1.0	- 1.0	- 6.7	13.7	12.7	- 0.9
3	- 12.7	- 13.4	- 0.1	- 3.2	- 9.0	- 6.0
4	- 10.0	- 13.8	- 4.4	- 1.5	- 5.8	- 4.4
5	- 3.2	- 1.5	1.7	- 5.8	- 3.6	2.4
6	3.0	6.7	3.5	7.5	13.6	5.7
7	4.6	5.4	0.8	6.5	7.1	0.6
8	1.4	0.2	- 1.2	- 1.7	- 6.1	- 4.5
9	9.4	9.1	0	- 8.6	- 8.2	0.4
60	1.8	0.6	- 2.4	1.9	0.9	- 1.1
1	- 1.1	2.1	3.3	- 5.9	- 7.5	- 1.7
2	10.2	8.6	- 1.4	- 0.3	- 1.1	- 0.8
3	1.9	0.1	- 1.8	- 8.1	- 7.1	1.0
4	- 0.4	- 1.1	- 1.0	1.7	0.3	1.2
5	- 0.4	- 1.4	- 1.0	- 1.9	0.1	2.1
6	6.8	7.3	0.5	5.9	10.9	4.7
7	11.2	5.1	- 5.5	6.1	- 2.0	7.6
8	- 2.2	- 0.4	1.8	- 11.0	- 12.2	- 1.4
9	- 1.3	- 0.8	0.5	4.5	5.4	0.9
70	1.3	0.7	- 0.7	0.4	- 2.5	- 2.8
1	6.0	5.3	- 0.6	- 3.9	- 6.8	- 3.0
Mean	1.8	0.9	- 1.3	0.4	- 0.1	0.3

SOURCE: See above, Table 22.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

as opposed to only four times in twenty-five years.

On the other hand, the freedom of the executive in manipulating the execution of the budget, if the actual outcome is any criteria, is hardly visible on average for each of the two periods, zero and 1.3 percent respectively. The difference between the supplementary estimate and the actual columns did range as high as 28 percent in the early 1930's but the increases and decreases in budget outlays during the early period as a whole cancel one another. In the later period, the largest change occurred in 1950, 7.3 percent, and it was a reduction from the legislative authorizations and revisions recorded at the end of the previous fiscal year.

Apparently, for both periods, the Executive Branch has had less influence on intrayear variations in budget outlay figures on average than the legislature. In addition, the Executive Branch has exhibited a greater propensity to reduce budget outlays than the Congress. In the early period, the Executive Branch reduced outlays, whether intentionally or not, thirteen times as opposed to the Legislative Branch which did so four times in the twenty-five years. For the later period, the Executive Branch spent less than the legislature authorized fourteen times while the legislature reduced the Executive's spending proposals nine times in the twenty-two years from 1950 to 1971.

Technical Reasons

Though we have translated the dollar amounts of budget figures into relative terms in Tables 23 and 24, it is still not possible to compare directly the intrayear variation in the U.S. and French budgets, One major reason is, of course, that the French budget is essentially an Executive Budget from initial estimate to final execution. However Table 25.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 25

INTRAYEAR CHANGES IN TECHNICAL AND FORECASTING CATEGORIES

OF FRENCH FINANCE LAW - GENERAL BUDGET - 1961-1971

(Millions of Francs)

	1961	1962	1963	1964	1965
Initial finance law crédits	62,334f	70,091f	77,736f	86,307f	92,333f
Supplementary finance laws	3,805f	3,672f	10,366f	2,041f	2,839f
Final exec. law -	702	644	593	651	1,364
Net forecasting adjustments:	3,103f	4,316f	10,959f	2,692f	4,203f
Variation of crédits (A) -	451f	350f	151f -	171f -	143f
Coop. funds(B)	1,562	2,095	1,959	1,810	1,816
Net exec.exp.(D)	66,548f	76,852f	90,805f	90,638f	98,209f
Intergov'tal trans.(C)	1,238	1,263	1,436	1,292	1,121
Net technical adj.(A+B+C):	2,349f	3,708f	3,546f	2,931f	2,794f
Real exp.(D-C)	67,786f	78,115f	92,240f	91,930f	99,330f

	1966	1967	1968	1969	1970	1971
Initial finance law crédits	100,994f	113,839f	124,579f	147,613f	154,420f	166,361f
Supplementary finance laws	3,054f	7,396f	9,153f -	461f	4,920f	2,726f
Final exec. law	396	494 -	156 -	2,057 -	1,028	1,681
Net forecasting adjustments:	3,450f	7,890f	8,997f -	2,518f	3,892	4,407
Variation of crédits (A)	387f -	1,442f-	2,581f -	462f	171f	202f
Coop funds (B)	1,632	1,706	2,551	3,162	3,749	4,579
Net exec.exp.(D)	106,463f	121,993f	133,546f	147,795f	162,232f	175,549f
Intergov'tal trans.(C)	1,175	2,135	1,183	1,204	0	1,568
Net technical adj.(A+B+C):	3,194f	2,399f	1,153f	3,904f	3,920f	6,349f
Real exp.(D-C)	107,638f	124,128f	134,729f	148,999f	162,232f	177,117f

SOURCE: France, Ministère de l'Économie et des Finances, Projet de loi portant règlement définitif du budget for years 1961 to 1971.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

which recounts the intrayear variations in the French budget, will enable the comparison of the technical and forecasting discrepancies in outlays reported by the French loi de règlement. The Table lists, numerically, the Technical Reasons, such as variations of crédits or the difference in réports de crédits, cooperative funds or fonds de concours. and intra-governmental transactions or rétablissements de crédits as well as the forecasting reasons as revealed by the supplementary estimates or "lois de finances rectificatives (collectifs) and the final executed laws or "credits accordés ou annulés par la loi de règlement." In fact, the transferts or virements of crédits are also technical reasons for difference between the initial and final executed bill but they affect the allocations of expenditures and not their total sum and, therefore, cancel out of the tables.

In Table 26, the technical and forecasting adjustments are expressed as a proportion of the initial finance law. If we assume that the technical adjustments approach the idea of executive liberty in execution over legislative authorization than we have a starting point for comparison within the French budget. Note that the proportion of the initial budget devoted to technical adjustments has shown substantial variation from a high of 5.3 percent in 1962 to a low of 0.8 percent in 1968, and averaging 3.2 percent for the 1961 to 1971 period. Nevertheless, it is apparent that variations due to forecasting errors are substantially larger, though they do represent a smaller fraction of recent initial finance laws than they did formerly. The average fraction for the eleven year period of Table 26 is 4.9 percent.

Finally, thought one might think it possible to compare the actual French net expenditures as a fraction of the initial budget with those in

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 26

INTRAYEAR CHANGES IN TECHNICAL AND FORECASTING CATEGORIES OF FRENCH FINANCE LAW-GENERAL BUDGET-AS PROPORTION OF INITIAL FINANCE LAW

1961-1971

	1961	1962	1963	1964	1965
Initial finance law crédits	100.0	100.0	100.0	100.0	100.0
Supplementary finance laws	6.1	5.2	13.3	2.4	3.1
Final exec.law	- 1.1	0.9	0.8	0.8	1.5
Net forecasting adjustments:	5.0	6.1	14.1	3.2	4.6
Variation of crédits (A)	- 0.7	0.5	0.2	- 0.2	- 0.2
Coop funds (B)	2.5	3.0	2.5	2.1	2.0
Net exec.exp.(D)	106.8	109.6	116.8	105.0	106.4
Intergov'tal trans.(C)	2.0	1.8	1.8	1.5	1.2
Net technical adj.(A+B+C):	3.8	5.3	4.5	3.4	3.0
Real exp.(D-C)	108.7	111.4	118.7	106.5	107.6

	1966	1967	1968	1969	1970	1971
Initial finance law crédits	100.0	100.0	100.0	100.0	100.0	100.0
Supplementary finance laws	3.0	6.5	7.3	- 0.3	3.2	1.6
Final exec. law	0.4	0.4	- 0.1	- 1.4	- 0.7	1.0
Net forecasting adjustments:	3.4	6.9	7.2	- 1.7	2.5	2.6
Variations of crédits (A)	0.4	- 1.3	- 2.1	- 0.3	0.1	0.1
Coop. funds(B)	1.6	1.5	2.0	2.1	2.4	2.8
Net exec. exp.(D)	105.4	107.2	107.2	100.1	105.1	105.5
Intergov'tal trans. (C)	1.2	1.9	0.9	0.8	0	0.9
Net technical adj.(A+B+C):	3.2	2.1	0.8	2.6	2.5	3.8
Real exp.(D-C)	106.6	109.0	108	100.9	105.1	108.5

SOURCE: See above, Table 25.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

the United States for the purpose of comparing the total intrayear variation in the budget, this is possible only under certain circumstances. We must ignore certain definitional differences, such as the treatment of carryover balances, and we must correct for the special treatment of the fonds de concours, the cooperative funds. These funds are not included in the initial finance law though they constitute a part of final executed expenditures. Assuming they are not responsible for any intrayear variation in the budget (which they are) and eliminating them completely from the final outcome, the average change in the French budget from initial to final executed law for the years 1961 to 1971 is 4.6 percent as compared to 2.3 percent for the same period in the United States.

Fonds de concours or cooperative funds. From Table 26, it is apparent that the fonds de concours have consistently represented a rather unimportant fraction of the initial budget, ranging from just under 2 percent to 3 percent over the period. It is the inconsistency in their treatment from initial to final finance law which seems most objectionable. The fonds de concours or cooperative funds are transfers executed by private individuals or private or public enterprises outside the State to concourir, or cooperate, with the crédits of the State in expenditures of public interest. These transfers correspond to a participation in the support of public works, monuments, or navigable waterways. Besides, the procedure of fonds de concours is applied to certain receipts which are independent of decisions made by the State authorities such as gifts and sometimes to receipts of non-fiscal character.[599] The latter are receipts such as those of the Social Security services which are subject to special rules and control

[599] Deruel, p. 95.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

outside the budget.[600]

It is, perhaps, because of the violation of the rule of non-assignment of receipts that receipts falling in the category of cooperative funds, the first technical explanation for differences in budget reporting, are not included in the estimation of receipts or expenditures of the initial finance law. They are, however, added in the course of the year to the forecast receipts and corresponding crédits are opened to allow for the execution of the expenditures demanded. Thus, the cooperative funds appear in the final accounting results but are not true corrections to the initial authorizations in which they never appeared.[601] They do appear, finally, in the "green" papers of the general account of the Finance Administration referred to earlier at the closing of the accounts for the previous fiscal year.[602]

There is no comparable accounting procedure in the budgetary process of the U.S. where probable receipts and expenditures are consistently eliminated from consideration in the initial executive budget. But, it should be repeated here that the federal Government in the U.S., does not collect taxes by legal obligation for the State or local Governments as does the central Government in France, though it has offered to collect them on a voluntary basis in the State and Local Fiscal Assistance Act of 1972.

Reports de crédits or variations of crédits and permanent budget authority. There is a comparable procedure in the United States to the second technical reason for variation between the forecast and results of the budget and that is reports de crédits, which, in the French system, violates their hallowed rule of the annual budget. French principles

---

[600] Ibid., p. 96; Trotabas with Cotteret, pp. 472-476.

[601] Ibid. [602] Lequéret, p. 95.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

call for the annulment of any crédit which is opened but not used during the fiscal year. In this way, the rule of annuality is preserved. There are a small number of ordinary expenses whose crédits can be left open for the following year's use if they are listed in a special table annexed to the finance law. In addition, the crédits for capital expenditures can be freely "stocked" from one year to the next.[603]

In the United States, a similar practice is followed for permanent or indefinite appropriations or so-called "no-year-money."[604] Table 27 states numerically the division of total budget authority between current and permanent types according to original estimates and actual sums granted. Table 28 based on these latter figures describes the Percentage Distribution and Permanent Budget Authority granted in each year from 1954 through 1971. Of course, cumulatively speaking, in any one year what is avaliable for spending is actually larger than the single figure registered.

Table 28

PERCENTAGE DISTRIBUTION OF ACTUAL CURRENT AND PERMANENT BUDGET AUTHORITY: 1954 - 1971

Year	Current Percentage	Permanent of Total	Year	Current Percentage	Permanent of Total
1954	87.4	12.6	1963	88.6	11.4
1955	86.4	13.6	1964	86.9	13.1
1956	84.3	15.7	1965	87.8	13.1
1957	88.2	11.8	1966	87.7	12.3
1958	88.6	11.4	1967	74.2	25.8
1959	89.3	10.7	1968	70.5	29.5
1960	86.5	13.5	1969	67.9	32.1
1961	87.7	12.3	1970	66.5	33.5
1962	87.9	12.1	1971	71.7	28.3

Source: Calculations based on Table 27.

[603] Ibid., p. 39; Rivoli, p. 33.

[604] Louis Fisher, "Presidential Spending Discretion and Congressional Controls," p. 156.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 27

CURRENT AND PERMANENT BUDGET AUTHORITY: INITIAL ESTIMATE AND ACTUAL BUDGET AUTHORITY GRANTED 1954-1971 (Millions of Dollars)

Year	INITIAL ESTIMATE Budget Authority Total	Current	Permanent	ACTUAL Budget Authority Total	Current	Permanent
1954	$ 72,883	$ 64,463	$ 8,420	$ 62,765	$ 54,830	$ 7,935
5	56,283	48,474	7,809	57,076	49,324	7,752
6	58,642	50,734	7,908	63,198	53,256	9,942
7	66,291	58,331	7,960	70,179	61,896	8,282
8	73,341	65,312	8,029	76,345	67,642	8,702
9	72,452	64,052	8,403	81,365	72,670	8,695
60	76,807	68,014	8,793	79,574	68,850	10,724
1	79,415	68,775	10,641	86,675	76,039	10,636
2	80,867	71,108	9,759	92,862	81,627	11,236
3	99,303	88,355	10,948	102,283	90,635	11,648
4	107,927	96,147	11,781	101,103	87,878	13,225
5	103,789	91,404	12,384	106,608	93,557	13,051
6	106,417	93,508	12,909	126,439	110,942	15,497
7	164,488	107,967	56,522	182,562	135,432	47,130
8	194,224	128,202	66,021	190,649	134,444	56,205
9	201,723	141,496	60,227	196,167	133,213	62,954
70	210,116	143,867	66,249	212,973	141,592	71,381
1	218,030	148,113	69,917	236,406	169,444	66,962

SOURCES: U.S. President, Bureau of Budget and Office of Management and Budget, U.S. Budget for Fiscal Years 1954 through 1973.

NOTE: Through 1966, administrative budget figures are used; thereafter, budget figures include the trust funds.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

The permanent or indefinite appropriations category listed above is used for military procurement in spite of the fact that article I, section 8 of the U.S. Constitution provides that appropriations to raise and support armies shall be for a period no longer than two years.[605]

Because substantial portions of budget authority remain unspent in any one year and are carried over to the next or future years, increases or decreases in budget authority by Congress do not necessarily change budget outlays for that year by the same amount.[606] Table 29, on the following page, compares the intrayear variations in outlays with those of the two major types of budget authority to emphasize the point.

Transfers in space. After the fonds de concours and the reports de crédits, there is a third technical reason in France for the difference between the initial and the finally executed budget, the transfers of crédits in space. Actually, these transfers are merely accounting transfers and take three forms primarily in France: transferts, virements and répartitions. Similar categories in the U.S. including reprogramming, reserves and special funds, will be considered. The first two types of French transfers do not entail a change in the total amount of crédits, but they either may modify the nature of the forecast expenditure, in which case they are called virement, or they may not modify the nature, rather modifying the service incurring the expenditure, in which case they are called transfert. The second type, the transfer according to service, involves the annulment of a crédit in the body of one

---

[605] See, for example, The Budget of the U.S. Government for Fiscal Year 1969, diagrammatic description of the relation of authorizations to to outlays, p. 56.

[606] See discussion in Fisher, "Pres. Spending Discretion...", p. 156.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 29

CURRENT AND PERMANENT BUDGET AUTHORITY AND OUTLAYS: PERCENTAGE VARIATION BETWEEN INITIAL ESTIMATE AND ACTUAL FIGURES

1954-1971

Year	VARIATION IN BUDGET AUTHORITY(%)			Variation in Outlays
	Total	Current	Permanent	
1954	13.9	- 14.9	- 5.8	- 13.8
5	1.4	1.8	- 0.7	- .1.5
6	7.8	5.0	25.7	6.7
7	5.9	6.1	4.0	5.4
8	4.1	3.6	8.4	0.2
9	12.3	13.5	3.5	9.1
60	3.6	1.2	22.0	0.6
1	9.1	10.6	0	2.1
2	14.8	14.8	15.1	8.6
3	3.0	2.6	6.4	0.1
4	- 6.3	- 8.6	12.3	1.1
5	2.7	2.4	5.4	1.4
6	18.8	18.6	20.0	7.3
7	11.0	25.4	- 16.6	5.1
8	- 1.8	4.9	- 14.9	- 0.4
9	- 2.8	- 5.9	4.5	- 0.8
70	1.4	- 1.6	7.7	0.7
1	8.4	14.4	- 4.2	5.3
Mean	6.0	5.2	5.2	2.1

SOURCES: For budget authority figures, see above, Table 27. For outlays, see above, Table 22.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

chapter and the opening of a supplementary crédit of the same amount in another chapter by a simple decision of the Ministry of Economy and Finance. The most important transfers of this type appear in the budget of "Charges Communs" and reveal why there is no connection between the crédits and the expenses in this budget.[607]

Transfers serve an important function in maintaining flexibility in the execution of the budget but they can lead to suppression of parliamentary control.[608] In 1969, it has been calculated that transfers according to service in France amounted to 7, 561 million francs, which is a considerable sum.[609] Table 30, on the next page, offers similar calculations for 1966 through 1969, drawn from the reports of the French Cours des Comptes.

The second type of transfer, virement, for which a decree is issued on the report of the Ministry of Economy and Finance, actually modifies the nature of the expense though it can occur only within the same title of the budget and within the same ministry and must not exceed one-tenth of each one of the chapters concerned.[610]

We use the term, reprogramming, in the United States to describe the shifting of appropriated funds from the original purpose to a new purpose within the same account. Unlike transfers, reprogramming does not depend on statutory authority but only on an informal clearance procedure between executive agencies and congressional committees. It takes place in such areas and agencies as the Atomic Energy Commission, public works,

---

[607] Lequéret, p. 40; Rivoli, p. 34; Trotabas, p. 101.

[608] Burkhead, pp. 345-347; Cotteret & Émeri, p. 80.

[609] Cotteret & Émeri, p. 81. [610] Rivoli, p. 34; Lequéret, p. 40.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 30

"VIREMENTS", "TRANSFERTS" AND "RÉPARTITIONS" IN FRENCH FINANCE BILLS

1966-1971 (Millions of Francs)

Year	Budgets	"Virements"	"Transferts"	"Répartitions"	Total	Total as % of Global Exp.
1966	Général	148	5,965	958		
	Annexes	60	0	97		
	Comptes Spéc.	3	401	0		
	Totals:	211f	6,365f	1,055f	7,631f	5.2
1967	Général	251	6,579	1,064		
	Annexes	4	6	103		
	Comptes Spéc.	0	274	0		
	Totals:	255f	6,858f	1,167f	8,279f	6.0
1968	Général	308	7,107	3,476		
	Annexes	33	0	504		
	Comptes Spéc.	0	385	100		
	Totals:	341f	7,492f	4,080f	11,913f	8.2
1969	Général	406	7,012	3,649		
	Annexes	37	4	730		
	Comptes Spéc.	0	545	80		
	Totals:	443f	7,561f	4,460f	12,464f	7.3
1970					12,990f	6.9
1971					11,830f	5.9

SOURCES: France, Cour des Comptes, Rapport sur le projet de loi portant règlement définitif du budget de 1967 and de 1969. Also, Rapport au Président de la République about Treasury operations, 1971. For basis of global expenditures, see above, Table 12.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

foreign assistance, and the Defense Department. Military reprogramming in recent years has cost more than a billion dollars a year as can be seen in the Table 31 below for the years 1966 to 1971 in the Defense Department alone and the evidence presented here is admittedly fragmentary.[611]

TABLE 31

REPROGRAMMING IN THE DEFENSE DEPARTMENT: 1966 - 1971

Year	Reprogramming (millions of $)	Reprogramming as Percentage of Outlays
1966	$ 2,253.0	2.1%
1967	3,373.0	2.1
1968	4,797.0	2.7
1969	N.A.	N.A.
1970	2,431	1.2
1971	3,266	1.5

Source: Louis Fisher, Congressional Research Service, "Reprogramming of Funds by the Defense Department" reprinted from Journal of Politics, v. 36 (1974):88

Even then, the fragmentary evidence suggests that reprogramming in the United States exceeds the evidence of virements, its closest synonym in France, as a proportion of the total budget. Virements in France represent approximately 1/5 of 1 percent of the budget during the years 1966 to 1969 while the incomplete information for the Defense Department reveals that reprogramming sums have ranged as high as 2.7 percent of budget outlays. In France, virements were composed mainly of adjustments in military services in 1967 and 1968, but in 1969, they occurred mainly among the civil crédits. Nearly half of those appearing in the budget were a subsidy to the agricultural markets. In the annexed budgets, it is the Postes et Telecommunications budget in which transferts, virements and répartitions occur most frequently. In the special accounts

[611] Louis Fisher, "Reprogramming of Funds by the Defense Department," The Journal of Politics, Vol. 36 (1974): Stephen Horn, p. 495.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

of the Treasury, it is the loan accounts and the accounts of special assignment which are most often affected. The Court of Accounts has complained that these practices reduce belief in budgetary forecasts and suggests that, in some cases, deliberate underestimation of certain expenses is forecast with full knowledge of the ease of correction.[612]

On the other hand, in the United States, the House Appropriations Committee has recognized the need for some reprogramming though it has not provided for it in statute. It has required, however, since 1955, semi-annual reports on all reprogramming actions. In addition, since 1959, it has directed the Defense Department to furnish within thirty days after departmental approval, reprogramming actions involving one million dollars or more. Complaints over the years about reprogramming appear to be centered primarily on the fact that it is a convenient way of circumventing the ordinary authorization and appropriation stages. Approval of reprogramming actions involved relatively few members of Congress, at most, a few subcommittees. More recently, reprogramming requests have gone beyond the review responsibilities of only a few subcommittees until, in some controversial cases, Congress as a whole may be involved.[613]

Thus, contrary to the French system in which strict legal procedures pertain to virements, in the U.S., reprogramming has become only recently subject to tighter controls. In addition to the suggestion that initial budget estimates should be more carefully screened, two indirect approaches to the problem are (1) cut down on the amount of carryover balances, and (2) make reprogramming practices more visible as indicated

---

[612]France. Cour Des Comptes, Rapport sur le project de loi portant règlement définitif du budget de 1967, p. 190.

[613]Louis Fisher, "Presidential Spending Discretion..", pp. 152-155.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

by the House Appropriations Committee's decision to print all deliberations concerning reprogramming since 1970.[614]

Nevertheless, Congress has been aware for a long time of the advantages of the administrative power of transfer. There have been both proposals to abolish transfers altogether and to delegate broad transfer authority to the executive branch during the period of great emergency. The Act of 27 March 1941, or the "Lend-Lease Act of 1941" appropriated seven billion dollars for ordinance, aircraft, tanks, and for other categories of defense articles. The President could transfer as much as 20 percent of the appropriations from one category to another, provided that no appropriation would be increased by more than 30 percent.[615] More recently, in fiscal 1971, the Secretary of Defense was permitted by the Defense Department Appropriation Act of that year to transfer up to six hundred million dollars.[616]

The third type of transfers, répartitions, as seen in Table 30, have occasioned the highest rate of growth of the three types of French accounting transfers. Similar to the transfers previously discussed, they do not affect the total sums of the budget but, unlike virements and transferts, they do not merely change the nature of, or the ministry of, expenditure, but they may be used for completely unforseen purposes. According to article 7 of the organic law of 1959, certain chapters may contain global crédits destined to meet either accidental or emergency expenses. By their very nature, these crédits cannot be applied to

---

[614]Louis Fisher, Presidential Spending Power, pp. 93-94.

[615]Louis Fisher, "Presidential Spending Discretion...", p. 148.

[616]Act of January 1971, P.L. 91-668.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

particular uses initially and, therefore, they are assigned later by the order of the Minister of Finance. The crédits are assigned to so-called chapitres-réservoirs, or reservoir chapters, and can be used for unforseen public calamities. In practice, they are frequently used for less unforseeable circumstances such as the work connected with equipping the fort of Bregançon which amounted to over four million francs in the years 1967 to 1969, all drawn from accidental expenses.[617] It is these crédits which are meant by the column headed répartitions in Table 30.

In the United States, we know that the Office of Management and Budget, in addition to its apportionment power, has authority to establish reserves against appropriations. The purposes for these reserves may be, also, for emergencies as in the French System but, in addition, they are for effecting savings and for regulating appropriations so that obligational authority will be available over the predicted span of time envisaged. In addition, the budget document initially contains a separate expenditure category, a "reserve for contingencies" to cover certain appropriations which the administration may ask Congress to provide at a later date.[618] The Budget and Accounting Act of 1921 provided, also, for lump sum appropriations which had to be accompanied by a description of the manner of expenditures of such sums for the future year, the past year and the year in progress.[619] A recent example of the use of such lump sum appropriations is the sum of $1.9 billion made available to the Atomic Energy Commission in 1971 for "operating expenses." "Theoretically,

---

[617] Cotteret and Émeri, p. 81.

[618] Burkhead, pp. 95 & 101.

[619] Budget and Accounting Act, 42 Stat. 21.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

the money could be spent for just about anything, and yet there exists a moral understanding between the Commission and the appropriations subcommittees that the money will be spent in accordance with the Comission's budget estimates, as amended by congressional actions and directives included in committee reports."[620] Finally, in one last case of the transfer for unforseen purposes, a much larger freedom of discretion has been exercised by the administration in several examples of covert financing either to prevent analysis by the enemy or because of overriding national security interests. Covert financing has been used to finance activities such as broadcasting of U.S. information to Eastern Europe and Russia as well as military operations in Laos through the intermediary, the C.I.A. It has been estimated that in spite of the "full disclosure" requirement for accounting practices of the Government provided for by the Budget and Accounting Procedures Act of 1950, there are still sums spent which cannot be traced to a particular budget chapter. It is said that of the $229.2 billion budget for fiscal year 1972, secret funds were estimated at one time to amount to as much as fifteen to twenty billion dollars.[621]

There are "secret" or, rather special funds since 1946 in France, also. However, in contrast to the U.S. practice, there is nothing secret about the total size of these funds but only their particular assignment.[622] They are voted annually by Parliament and figure in a budget chapter called Fonds spéciaux, special funds, in the body of crédits assigned to the Prime Minister. It is the Prime Minister who allocates the funds to

---

[620] Fisher, "Presidential Spending Discretion..", p. 137.

[621] Ibid., pp. 139 & 143.

[622] Cotteret & Émeri, p. 81.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

the different ministries and it is he, alone, who is responsible for their use as they escape all the normal rules of control. It has been said that these funds are used for secret foreign policy commitments and espionage as well as for internal policy and journalist matters.[623]

Transfers in time. Transfers in time have been for a long time, also, a source of argumentation. In the examination of these types of transfers below, apportionment, acceleration and deceleration of expenditures, impoundment of funds and optional funds are considered.

Originally, the freedom of apportionment of appropriations had derived from the early operational difficulties incurred by the agencies and the Bureau of the Budget. In the Annual Report of the Director for the fiscal year ending 1 July 1926, the Director introduced the apportionment of appropriations to uphold the principles of the AntiDeficiency Act, Section 3679 of the Revised statutes as amended by the Act of 27 February 1906. The Act and Amendment "provided generally that departments and establishments shall not expend in any one fiscal year any sum in excess of appropriations made by Congress for that year nor involve the Government in obligations in excess of appropriations."[624] In fact, it is this same system which is still in effect today and, for the same purpose, "to achieve an effective and economic use of available funds" though the trust funds and some Government enterprises are not subject to apportionment.[625] It is the agencies, themselves, who propose requests for apportionment. Then, the OMB must make its own decisions on these requests

---

[623] Ibid.

[624] Antideficiency Act repr. in Brundage, pp. 273-277.

[625] Brite and Halper, p. 614.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

In addition, according to the Antideficiency Act, the Director may reapportion at any time with or without an agency request to do so. Apportionments are usually made on a quarterly basis and they must be reviewed at least four times a year according to the Revised Statutes.

In France, there are somewhat similar procedures with respect to allocating crédits over the budgetary year. However, one can separate dispositions with respect to time considerations into three different types. Only the first type has the simple purpose of spacing operations so that they are relatively uniform over the year. This is the oldest one of the three forms and is applied to certain expenses such as rents whose engagement each month cannot exceed one-twelfth of the total amount authorized for the year. Since 1963, certain capital expenses such as construction and building are also submitted to a regulated plan which approximates the quarterly basis for U.S. apportionment procedures.

The second type of disposition is related not only to the idea of spacing crédits in time but is an outgrowth of the compromise between the concept of l'exercice and la gestion mentioned above. Except in special cases, ordinary expenses other than for personnel cannot be engaged after November 30th and the service must be performed before the end of the calendar year. Beginning with 1 November and limited to one fourth of the crédits allocated to the current year, ordinary expenses can be engaged in the name of the succeeding year's budget but execution of the service may not take place before 1 January.[626]

The final type of disposition is made in variable intervals according to the type of expenditures and it is made to the ordonnateurs secondaires. These are simply heads of service who are delegated the

[626]Lequéret, p. 39.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

order of payment or mandat de paiement by the ordonnateurs principaux or the ministers of each department. This type of procedure is more akin to what we in the U.S. refer to as the "allotment" procedure whereby, once budget authority is apportioned to the agencies by the OMB, another level of apportionment occurs within the agencies. The agency heads determine the rate and amount of funds to be devoted to various programs and administrative units within their competence.[627]

However, in the French system, the procedure appears of much greater import than in the U.S. because the secondary ordinators have greater responsibilities away from local central agency supervision than in the U.S. It will be recalled that in France, the local collectivités (department and communes) are under the supervision of the central Government, particularly in financial matters.[628] To this end, ministers must delegate crédits to the regional and departmental service heads during the entire year. Depending on whether the original allocation of crédits was in global form such that it is within the framework of the budgetary line and, thus, its particular use is not indicated. If, however, there are precise indications of its use, it may be delegated on a monthly, quarterly, or semi-annual basis.[629]

In the framework of deconcentration, which has been occurring in France over the past several years, service branch heads below the national level have assumed a more vital role. An important decree in 1970 provided that all public investment programs not classified as national

---

[627] Brite and Halper, p. 615.

[628] France, Constitution 1958, art. 34.

[629] Lequéret, p. 39.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

be guided by regional or local authorities. According to the law, the ministers and secretaries of State must delegate 75 percent of their program authorizations before the end of January.[630]

Greater recognition of the regional aspects of budgeting, though with less direct responsibility at that level, has occurred in recent years in the U.S., also. Executive Order No. 11647 updated previous orders since 1972 providing for Federal regional councils which "to the maximum extent feasible assist State and local Government by the coordination of the Federal program grants and operations." [631]

Related to the apportionment procedure is the more recent idea that expenditures may be spread in a time sequence which will more aptly serve stabilization goals rather than merely management and efficiency considerations. From this point of view, payments or expenditures may be accelerated or they may be deferred. One of the earliest examples of acceleration of expenditures for the purpose of stimulating the economy was adopted by the U.S. in fiscal 1955.[632] The history of decelerating expenditures or impoundment of funds is much older. Instances of impoundment for the purpose of efficient management exist since prior to the Federal budget process as we know it. Instances of impoundment to fulfill statutory authority began primarily with the Economy Acts of the 1930's and the birth of the executive reorganization plan. Instances of impoundment for fiscal policy purposes and to fulfill the President's constitutional duties and vested executive authority are relatively newer

---

[630] Ibid.

[631] U.S. President, Executive Order No. 11647, U.S. Code Annotated vol. 31, (St. Paul: West Publ. Co., 1976).

[632] Lewis, p. 165.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

in origin. They began to surface noticeably in the late 1960's and 70's. The basis for impoundment for these purposes is traced mainly to the Employment Act of 1946 and the Antideficiency Act as amended in 1950.[633]

Whatever the legal and factual issues involved may be, impoundment has reached significant proportions in the United States as revealed by Secretary Weinberger in 1973, whose figures are repeated below:[634]

Year	Impounded Funds as Proportion of Total Unified Budget
ending 6/30/1961	7.8%
2	6.1
3	4.0
4	3.5
5	4.7
6	6.5
7	6.7
8	5.5

It has been suggested that aggregative figures on impoundment "are not useful" because of the need to know whether sums are withheld for routine or policy reasons, the technical definition of impoundment as opposed to all other means of withholding funds and the fact that gross figures fail to reveal program impact in terms of the foregoing and whether as a result of impoundment, there is an "outright loss of funds."[635] Indeed, these points are well taken with respect to several current issues concerning control of the Federal budget. Nevertheless, what concerns us here is that, whatever the underlying reasons for the withholding of funds, there is an actual variance between the final budget outcome and the initial

---

[633] Louis Fisher, "Impoundment of Funds: Uses and Abuses," reprinted by the Library of Congress, Congressional Research Service, 18 Feb. 1974 from Buffalo Law Review, Vol. 23, No. 1 (Fall 1973): pp. 142-172 and Fisher, Presidential Spending Power, pp. 147-201.

[634] Ibid., pp. 191-192.

[635] Fisher, Presidential Spending Power, pp. 171-174.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

budget forecast due, in part, to the impoundment procedure.

In France, changing the rhythym of expenditures or revenues, in general, is a relatively new concern. It has rarely been true that public expenditures have been used to regulate demand in the short term. However, public expenditures were reduced under stabilization programs against inflation in 1952-53, 1958-59, 1963-64 and in 1969. On the other hand, expenditures have not been increased deliberately except as a rectification of preceding deflationist actions whose effects were prolonged too long.[636]

The ways in which the French Government effects the budget during the course of the fiscal year is through adjustments of estimated and provisional crédits or through advance decrees and carryover crédits. More recently, the Government has regulated expenses by changing the quarterly apportionment of the fixed annual total of program authorizations, by "blocking" certain program authorizations granted, and by the manipulation of optional crédits or fonds d'action conjoncturel, F.A.C. Thus, apportionments were fixed, for example, in 1970 to stimulate the economy at the end of the year at 20, 25, 25, and in the last quarter, at 30 percent, while in 1971, engagements of program authorizations were accelerated at the beginning of the year, 30, 25, 20 and 25 percent.[637] F.A.C. first appeared in 1969 and represented 2,228 million francs of the total of 26,278 million francs of program authorizations of that year. Blockage of funds amounted to three quarters of the authorizations of program for the civil budget as of 1 July 1969 or 5.2 billion francs, which

---

[636] Banque Nationale de Paris, p. 4.

[637] France, Ministère de l'Économie et des Finances, "Les Mésures budgétaires d'inspiration conjoncturelle entre 1966 et 1971" (avril 1972);4.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

were placed in a F.A.C. budget account created on the occasion.[638]

Depending on economic conditions in 1970, reported the Banque Nationale de Paris, optional crédits (F.A.C.) or "blocked" funds could be used to stimulate the economy more quickly than supplementary crédits. On the other hand, the possibility of meeting inflationary pressures or cooling off the economy would need no special provisions because the option of not utilizing all the voted crédits is always there.[639]

Rétablissements de crédits or netting practices. The last technical reason for difficulty in interpreting the results of the execution of the budget as opposed to the initial one arises from the practice of rétablissements de crédits. This is one of the exceptions to the rule of reporting gross figures in the budget and not netting receipts against expenditures. In France, the netting procedure, or counting a receipt as a reduction of an expenditure is most prevalent for crédits of National Defense and certain sales of military material to foreigners.[640]

Article 19 of the 1959 organic decree provides for reinstatement of crédits or, rétablissement de crédits in conditions fixed by decision, arrête of the Minister of Finance in the following cases: (1) receipts issuing from the restitution to the Treasury of sums paid improperly or provisionally on budget crédits, and (2) receipts issuing from assignments or transfers having given place to payment on budgetary crédits. Notice, that according to Table 25 intragovernmental transactions, rétablissements de crédits have fairly consistently diminished in relative proportion to the initial finance law from 2 percent in 1961 to under 1 percent in 1971.

In the United States, netting procedures are used under similar

---

[638] Banque Nationale De Paris, p. 5. [639] Ibid., p. 6.

[640] Lequéret, p. 40.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

circumstances and in several other cases as well. The budget of fiscal year 1969 describes the cases where expenditure figures are quoted net according to the types of receipts involved: for refunds of previous erroneous expenditures, for collection of trust revolving funds, management funds and revolving finds, for reimbursements to appropriations according to law and for receipts arising out of the proprietary activities of the Government.[641]

Concern in France, however, has not been centered on parliamentary power with respect to the supplementary finance laws which have been simply a ratification power or approbation exercised by the legislature after the fact. Rather, concern has been directed toward the large difference between the initial budget law voted by Parliament and the final one as executed by the Government. Serious protests have been raised by both the French Senate and the Court of Accounts.[642] Tables 32 and 33 register, respectively, the numerical comparison between initial and actual budget outlays and the numerical comparison between initial and actual budget receipts and their percentage variation in France and the United States for the years 1960 to 1971. The percentage variation in both categories is substantially smaller on average over the period in the United States than it is in France.

Forecasting Errors

With respect to the third reason why the results of the execution of the budget differs from the initial budget, for reasons of forecasting difficulties, both the French and the U.S. System circumvent this

---

[641] U.S. President, Bureau of Budget, Budget F.Y. 1969, pp. 49-50.

[642] Trotabas with Cotteret, p. 103.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 32

COMPARISON BETWEEN INITIAL AND ACTUAL BUDGET OUTLAYS AND PERCENTAGE VARIATION IN THE UNITED STATES AND FRANCE 1960-1971

(Money Amounts in Millions of Dollars or Francs)

	UNITED STATES			FRANCE		
	Outlays			Outlays		
Year	Initial	Actual	% Variation	Initial	Actual	% Variation
1960	$ 77,030	$ 76,539	0.6	72,947f	75,335f	3.3
1	79,816	81,515	2.1	78,122	81,950	4.9
2	80,865	87,787	8.6	85,901	92,926	8.2
3	92,537	92,642	0.1	94,849	109,136	15.1
4	98,802	97,684	1.1	103,288	108,869	5.4
5	97,900	96,507	1.4	111,604	116,929	4.8
6	99,687	106,978	7.3	119,466	128,911	7.9
7	150,729	158,414	5.1	131,418	144,475	9.9
8	179,540	178,862	- 0.4	144,596	156,307	8.1
9	186,062	184,556	- 0.8	168,058	172,349	2.6
70	195,272	196,588	0.7	177,857	187,683	5.5
1	200,771	211,425	5.3	193,057	203,344	5.3
Mean			2.6			6.8

SOURCES: U.S. President, Bureau of Budget and Office of Management and Budget, U.S. Budget for Fiscal Years 1960-1973. French figures are from François Deruel, Finances Publiques (Paris: Dalloz, 1972), Tables 1 and 2, pp. 66-69 and France, Ministère de l'économie et des finances, Projet de loi de règlement du budget, 1970 & 1971.

NOTES: For U. S. figures, administrative budget is used for fiscal years 1960-1966 and the unified budget for 1967-1971. For France, figures include total of definite accounts, balances of annexed budgets and other special accounts and total of special Treasury account loans.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 33

COMPARISON BETWEEN INITIAL AND ACTUAL BUDGET RECEIPTS AND PERCENTAGE VARIATION IN THE UNITED STATES AND FRANCE 1960-1971

(Money Amounts in Millions of Dollars or Francs)

	UNITED STATES			FRANCE		
	Outlays			Outlays		
Year	Initial	Actual	% Variation	Initial	Actual	% Variation
1960	$ 77,100	$ 77,763	0.9	$ 66,684	$ 70,657	6.0
1	84,000	77,659	- 7.5	71,265	77,107	8.2
2	82,333	81,409	- 1.1	78,841	85,292	8.2
3	93,000	86,376	- 7.1	87,881	102,496	16.6
4	86,900	89,459	0.3	98,554	107,999	9.6
5	93,000	93,072	0.1	111,616	116,676	4.5
6	94,400	104,727	10.9	119,472	124,731	4.4
7	152,600	149,591	- 2.0	131,421	139,092	5.8
8	175,037	153,676	-12.2	142,655	144,782	1.5
9	178,108	187,792	5.4	161,704	170,869	5.7
70	198,686	193,743	- 2.5	177,862	188,248	5.8
1	202,103	188,392	- 6.8	193,065	201,591	4.4
Mean			1.8			6.7

SOURCE: See above, Table 32.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

problem by providing for supplementary action on the budget by the legislature and/or the executive. In the U.S., additional requests for supplemental appropriations are transmitted while Congress is in session. Though there may be supplemental appropriations contained in the budget of the following fiscal year. In France, supplementary requests are opened by advance decrees, décrets d'avances, by corrective budgetary laws during the budgetary year, loi de finances rétificatifs or collectifs, and by the final executed budget law, loi de règlement.[643]

It is clear from Tables 23, 24 and 26 that, in the U.S., if the difference between the initial and the supplementary budget figures are a result of the forecasting errors than, since 1950, we are better at prediction. We cannot give equal weight in our predictive prowess to expenditures and to receipts. Receipts are significantly better predicted over both periods, but the improvement in expenditure forecasts has been more dramatic moving from an average variation of 20 percent in the early period to just under 2 percent for the later period. In the United States, intrayear variations averaged 2.6 percent for outlays and 1.8 percent for receipts. Comparable figures for France were 6.8 percent and 6.7 percent, respectively, or more than twice as large in a nation which admittedly utilizes an almost purely executive budget process. Given the initially small budget imbalances forecast, however, the close relationship in France between the size of of the change in outlay and receipt figures during the year has meant that the change in the budget balance as a proportion of gross private domestic product has remained persistently smaller in France in every year but two of the eleven year period covered. This fact may be ascribed to at least two possible

[643] Deruel, p. 95.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

reasons: (1) the French may have been more concerned with budget balance in the first place than the United States and/or (2) they may have been more successful in manipulating expenditures and receipts to achieve that goal. In any event, the French concern with budget balance is made more evident by their relatively simple procedure of application for additional crédits if the financial balance of the last budget law is not affected as opposed to when it is, as provided in article 11 of the 1959 Ordonnance. Table 34 which compares the initial and actual budget balances and is derived from Tables 32 and 33 lists the information as a proportion of gross private domestic product. These tables, altogether, give some indication of the magnitude of management and control functions involved in attempting to meet the problems of serving congressional intent while achieving efficiency in operations and performing stablizing activities for the economy as a whole. These matters will be further investigated in Chapter 12.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 34

COMPARISON BETWEEN INITIAL AND ACTUAL BUDGET BALANCES AND AS PERCENTAGE OF GROSS PRIVATE DOMESTIC PRODUCT IN THE UNITED STATES AND FRANCE 1960-1971 (Money Amounts in Millions of Dollars or Francs)

	UNITED STATES			FRANCE		
	Balance		Change in Balance as	Balance		Change in Balance as
Year	Initial	Actual	% of GPDP	Initial	Actual	% of GPDP
1960	$ 70	$ 1,224	0.3	-$ 6,263	$ 4,678	0.6
1	4,184	- 3,856	1.7	- 6,857	- 4,843	0.7
2	1,468	- 6,378	1.6	- 7,060	- 7,634	0.2
3	463	- 6,266	1.3	- 6,968	- 6,640	0.1
4	- 11,902	- 8,225	0.6	- 4,734	- 870	0.9
5	- 4,900	- 3,435	0.2	12	- 253	0.1
6	- 5,287	- 2,251	0.5	6	- 4,180	0.9
7	1,871	- 8,823	1.5	3	- 6,534*	1.3
8	- 4,503	- 25,186	2.7	- 1,941	- 11,525	1.7
9	- 7,954	3,236	1.4	- 6,354	- 1,480	0.8
70	3,414	- 2,845	0.7	5	565	0.1
1	1,332	- 23,033	2.6	8	- 1,753	0.2

SOURCE: See above, Table 32.

*Includes unrecoverable advances of 1,151 million francs.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

CHAPTER 11

AUDIT AND REVIEW

Overview of Chapter 11

The final step in the budget process is audit and review, though the French tend to call it, the control phase. In the United States, general responsibility for compliance with the legalities of appropriations is in the hands of the agencies and departments to whom appropriations are made. In the French system, a similar responsibility is placed rather upon the Financial Comptrollers within each ministry who work under the supervision of the Minister of Economy and Finance. In this chapter, the manner and forms of control through audit in the two systems are examined. The French organization of these matters appears more complex and more independent of the budgetary process than our own. Nevertheless, standard texts in the United States emphasize the necessity for independence from management for reliable and responsible auditing.[644]

The chapter concerns, also, the functions of the U.S. General Accounting Office (G.A.O.) as compared to its French counterpart, the Cour des Comptes. Relationships between the audit departments and their

[644] American Institute of Certified Public Accountants, Codification of Auditing Standards and Procedures. Prepared by the Committee on Auditing Procedure. (New York: A.I.C.P.A., 1973), p. 1.; Arthur W. Holmes, CPA, and Wayne S. Overmeyer, CPA, Auditing Principles and Procedure, (Homewood, Ill: R.D. Irwin, Inc., 1971) 7th Ed., p. 2.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

respective Governments are analyzed and the accounting procedures utilized are explained. Some contradictions in the functions and the allegiance of the G.A.O. are revealed along with the weaknesses pertaining to the lack of standard classification systems, periodic budgetary data reporting, formal full scale audit and review and Congressional knowledge of any consistent basis of budgetary irregularities arising at the administrative level.

Functions of the G.A.O.

In the United States, it is the General Accounting Office which has the function of settling the accounts of administrative officers who were initially charged with the custody of public funds.[645] It is the audit which precedes and leads to the settlement of accounts. In France, this function belongs to the Court of Accounts or la Cour des Comptes, known, also, as the Audit Department. There are approximately two hundred magistrates belonging to the court who must judge all the accounts of the public accountants. In addition, the court must verify the action of the ordonnateurs and inform the Government, the members of Parliament and the public on the execution of the budget.[646] In both nations, the scope of governmental auditing has expanded beyond that of a function concerned merely with financial operations. In the United States, auditing is described now as concerned "not only with the financial aspects of an entity's operations, but also with the economy, and effectiveness of the operations, and with whether the entity complies with applicable laws and regulations."[647] The Honorable Elmer B. Staats,

---

[645] Burkhead, p. 103.

[646] Cotteret and Émeri, p. 119.

[647] American Institute of Certified Public Accountants, Auditing Standards Established by the GAO, Their Meaning and Significance for CPA's,

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Comptroller General of the United States, stated a similar position before the Ad Hoc Subcommittee on Impoundment of Funds of the U.S. Senate on 30 January 1973. In summarizing the functions of the General Accounting Office, he explained that "the thrust of our audits and reviews relates to the legality of activities and programs; the efficiency and effectiveness with which they are carried out; and whether the funds utilized have been properly accounted for."[648]

The basic purposes of the GAO are, according to the U.S. Government Organization Manual 1974-75 to

> assist the Congress, its committees, and its Members to carry out their legislative and overseeing responsibilities, consistent with its role as an independent nonpolitical agency in the legislative branch; carry out legal, accounting, auditing, and claims settlement functions with respect to Federal Government programs and operations as assigned by the Congress; and to make recommendations designed to make Government operations more efficient and effective.[649]

With respect to audit activities, the audit authority of the GAO extends to all departments and agencies of the Federal Government with the principle exceptions being the activities of the Federal Reserve Board and the Federal Reserve Banks, the Comptroller of the Currency, and the funds relating to certain intelligence activities.[650] In

---

prepared by the Committee on Relations with the GAO of AICPA, New York (1973), pp. 2-3.

[648]U.S. Senate, Comm. on Government Operations and Comm. on Judiciary, "Statement of Hon. Elmer B. Staats, Comptroller General of the U.S., acc. by Paul G. Dembling, General Counsel" in Impoundment of Appropriated Funds by the President, Joint Hearings before the Ad Hoc Subcomm. on the Impoundment of Funds & the Subcomm. on Separation of Powers on S. 373 (30 & 31 Jan & 6 & 7 Feb. 1973), p. 95.

[649]U.S. General Services Administration, Office of the Register, National Archives & Records, U.S. Government Manual 1974-1975 (1974), p. 44.

[650]Ibid.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

addition, the GAO's audit authority covers wholly and partially owned Government corporations. The scope of the audit work extends to "the activities of State and local governments, quasi governmental bodies, and private organizations in their capacity as recipients under, or administrators for, Federal aid programs financed by loans, advances, grants and contributions. The interest of the General Accounting Offices also extends to certain activities of those having negotiated contracts with the Government."[651]

To accomplish the objectives described, the work of the G.A.O. has been divided into three different types of auditing: financial, management and program auditing. During any one year, the G.A.O. conducts over 1,800 audits inside and outside the United States on such subjects as health and safety, procurement, manpower training and national defense.[652]

The G.A.O., headed by the Comptroller General of the U.S., was created by the same act which introduced the executive budget process in 1921. In addition to the office's auditing and settlement functions which had been lodged formerly with the Treasury Department, it assumed responsibility for "rendering binding legal decisions, settling claims, superintending the recovery of debts due to the United States, countersigning warrants, and preserving records relating to the Government's financial transactions."[653] Formerly, it had been described, also, as having a policy range considerably narrower than that of the U.S. Budget

---

[651] Ibid., p. 46.

[652] U.S. General Accounting Office, Annual Report of the Comptroller General of the U.S. 1971, (Wash., D.C.: Gov't. Pr. Off. 1971), pp. 4-6.

[653] Ibid., p. 1.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Bureau. Actually, its authority over the expenditure of Federal funds stems from the statutes which direct it to establish accounting systems, to undertake expenditure review and require it to make comprehensive audits.[654]

Functions of the Cour des Comptes

The G.A.O. differs significantly from its French counterpart in one particular respect. It does not maintain accounting records on the financial activities of departments and agencies and, hence, it is not responsible for reporting on the revenue and expenditure of the Federal Government as a whole.[655] The French Court of Accounts, on the other hand, does exercise control on the management of public finances and is responsible, among other duties, for a general declaration of conformity which verifies the consistency between the body of individual accounts of the accountants and the general accounts of the State. Furthermore, this declaration is accompanied by a report on the project of the loi de règlement or the closing of the actual State budget.[656] The document last mentioned is a public report which is talked about in the national press. Over the period of the last twenty years, it has appeared in four parts. The first part is addressed to the operations of the State budget and the public treasury in the course of the last fiscal year for which results are known. The second part lists observations made after examination of the various public bodies. It is in this section that most of the analytical detail concerning the execution phases of the budget under consideration compared to those of previous years may be

---

[654] Wallace, repr. in Improving Congressional Control (May 1973): 438.

[655] Burkhead, p. 104.

[656] Lequeret, p. 51.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

found.[657] In the third part, problems concerning the diverse local collectivités are discussed and, in the fourth, the services of social security.[658]

Actually, the Court of Accounts has several functions relating to legal, budgetary and management control considerations. It is the last one, management control, which has become relatively more important over the last thirty years. The first one, the legal function, is most general and extends over all the State accounts, the local collectivités and public establishments. The only accounts escaping the court's jurisdiction are the accounts tracing the expenses of Parliament and the special funds discussed earlier.[659]

Although the court has an administrative jurisdiction in its own right, it is connected to the Ministry of Economy and Finance and the crédits necessary to its functioning are inscribed in that budget. The Minister of Economy and Finance, also, nominates the important members of the court, presenting their names for approval to the President of the Republic or the Council of Ministers. Nevertheless, the Constitution of 1958 does indicate that the Court of Accounts is to assist Parliament and the Government in supervising the execution of the finance law.[660]

Relationships between the G.A.O. and Congress

In the United States, "Congress established the General Accounting Office in the legislative branch to serve as an independent, nonpolitical,

---

[657] See, for example: France, Cour des Comptes, Rapport sur le project de loi portant règlement du budget - Déclaration Générale de Conformité sur la gestion 1969, Part II, pp. 1-82.

[658] Lequéret, p. 51.

[659] See above, Chap. 10.

[660] France, Constitution, Title V, art. 47.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

and reliable source of assistance in carrying out the Constitutional responsibility for controlling the public purse. The duty of the General Accounting Office to furnish assistance to the Congress, its Committees, and Members is one of the most important responsibilities of the Office and receives the constant attention of its top officials."[661]

The G.A.O., according to the Budget and Accounting Act of 1921, is headed by the Comptroller General and an Assistant Comptroller General who are appointed by the President of the United States with the advice and consent of the Senate for a nonrenewable term of fifteen years. The only way the two officers may be removed is "by joint resolution of Congress after notice and hearing, when, in the judgement of Congress, the Comptroller General or Assistant Comptroller General has become permanently incapacitated or has been inefficient, or guilty of neglect of duty, or of malfeasance in office, or of any felony or conduct involving moral turpitude, and for no other cause and in no other manner except by impeachment."[662]

The initial act gave the Comptroller General the duty to prescribe "the forms, systems, and procedure for administrative appropriation and fund accounting in the several departments and establishments, and for the administrative examination of fiscal officers' accounts and claims against the United States.[663] Not only did the Comptroller set the rules and regulations for his own office, but he was expected to investigate "all matters relating to the receipts, disbursement, and application of public funds" on his own initiative, or by request of

---

[661]U.S. G.A.O. Annual Report, p. 11.

[662]Budget and Accounting Act of 1921, sec. 302.

[663]Ibid., sec. 309.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

the President, the Congress or a congressional committee.[664] These activities and the activities of the G.A.O., in general, must be reported to the Congress at the beginning of each regular session. In addition, the Comptroller General is expected to recommend legislation which he deems advisable to further the prompt and accurate rendition of accounts and other matters pertaining to accounting for the public monies. Furthermore, he must specifically report to Congress on any violations of the law in the way of expenditures or contracts made by a department or establishment.

In spite of the impressive list of responsibilities, it did not appear that the G.A.O. had lived up to its full potential in helping Congress by the early 1970's. The Legislative Reorganization Act of 1970[665] declared that the Treasury Department and the Office of Management and Budget, in cooperation with the G.A.O., provide for the development of a standardized information and data processing system for budgetary and fiscal data as well as a standard classification structure for receipts, expenditures, programs and activities of Federal agencies. In addition, the Act made explicit the responsibility of the G.A.O. in evaluating the effectiveness of ongoing and existing programs which the Budget and Accounting Act of 1921 and the Legislative Reorganization Act of 1946 had not done.[666]

Administrative Control by the Audit Departments Compared

The administrative control of the management of public finances which is reflected in the effectiveness of program execution is a

---

[664] Ibid., sec. 312. [665] See sec. 202.

[666] U.S. Senate, Comm. on Government Operations, "Statement of Hon. Elmer B. Staats, Comptroller General of the U.S. before the Joint Study Committee on Budget Control" (7 March 1973) repr. in Improving

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

relatively new area of study in the French system also. Official control of the administrators or ordonnators was organized in 1936, and the law of 22 June 1967 confirmed, once again, that the Court of Accounts was responsible for proper employment of crédits and funds in the service of the State.[667] The Audit Department in carrying out this management control function not only issues the public report described above, but communicates with the ministers and administrative authorities and the Prime Minister directly.

There are essentially two types of communications la note du Parquet and le référé. Le référé is a letter from the Prime Minister to the Minister concerned informing him of a serious management error or accounting or administrative irregularity. The Minister must reply to this letter within three months. La note du Parquet is a letter forwarded by the Attorney General, Procureur Général, of the Court of Accounts advising the heads of the service of the concerned central or local administration on laws or regulations, or even offering suggestions for reforms. It is one of the more modern methods of budgetary control.[668]

Thus, in France, the Court of Accounts has the right to audit the accounts, to verify the actions of the administrators, and to inform the Government, Parliament and the public on the execution of the budget but, it cannot participate directly in the execution of the budget. Our own Comptroller General, however, can preaudit vouchers, render an advance decision about how a prepared payment will be regarded by him in the settlement of accounts, and make a direct settlement of a claim by ordering it to be paid. In addition, he decides which items may be allowed or disallowed in the accounts of the disbursing officers. It is he who

Congressional Control over the Budget (27 March 1973), p. 215.

[667] Cotteret and Émeri, p. 120. [668] Lequéret, p. 51.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

countersigns requisitions made by regional Treasury disbursing officers for funds from the appropriations accounts of the Treasury and who countersigns the accountable warrant issued by the Secretary of the Treasury which is necessary for the transfer of funds. This repetitious procedure, though recently circumvented to a great extent, predates the Budget and Accounting Act of 1921. Before that Act, though, the auditor who approved the requisition was an entirely different officer from the comptroller who countersigned the warrant.[669]

In sum, as Lucius Wilmerding has indicated, the Comptroller General of the United States is both an auditor and a comptroller. With such a confusion of duties, claimed Wilmerding, the Comptroller General cannot operate effectively as an agent of Congress and the latter "is precluded from the exercise of any degree of retrospective control over expenditures."[670] Further, Congress appears to have failed to distinguish between two different functions and has failed, therefore, to perceive the existence of any difficulty. "If what is wanted is an audit report of the final expenditures of the amounts finally allowed as charges against appropriations, how futile is it to require such a report from the very person instructed by law with the determination of their amounts."[671] Though there were several writers who expressed similar points of view in the late 1950's,[672] Arthur Smithies was not among them though he recognized "the impressive body of opinion that considers a Congressional

---

[669] Burkhead, pp. 148-150; Bartelt, p. 148.

[670] Lucius Wilmerding, The Spending Power, A History of the Efforts Congress to Control Expenditures, (New Haven: Yale University Press, 1953), p. 283.

[671] Ibid., p. 273.

[672] See discussion in Wallace, repr. in Improving Congressional Control, (1, 7, and 9 May 1973), p. 440.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

audit of the more conventional kind necessary."[673]

A different opinion has been expressed by Richard Brown who claims, more recently, that the G.A.O.audit has become a true post-audit.[674] Though the Comptroller General still settles the agency's accounts before the final audit, Brown claims it is not a "preaudit in the traditional sense. Today, the GAO settles an agency's accounts by testing transactions for legality, on a sampling basis, as a part of GAO's post-audit work. To be precise, it is a presettlement audit, or check, but a post-payment audit. And disallowance of agency expenditures as a part of the settlement of accounts is becoming less and less significant as a part of the GAO's changing audit approach."[675]

Nevertheless, Brown notes that the charge of preaudit is still made by many critics. Additional remarks concern the fact that the GAO is significantly influenced in its choice of follow-through audits from year to year by "those subjects which seem to be of particular concern to Congress." Brown finds that individual reports in any one year are not comprehensive "in the usual sense (a common criticism of the GAO)", but, "the audit process and procedures upon which the report is based do qualify as comprehensive if viewed over a span of several years."[676]

In the early years, until 1936, the Comptroller General's authority to preaudit expenditures caused frequent conflicts with administrative agencies. The Attorney General and the Comptroller General

---

[673] Smithies, repr. in Improving Congressional Control (27 March 1973), p. 380.

[674] Richard E. Brown, The GAO, Untapped Source of Congressional Power, with a foreward by Senator William Proxmire, (Knoxville: University of Tennessee Press, 1970), p. 73.

[675] Ibid.

[676] Ibid.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

often made conflicting rulings on legal matters.[677] However, a re-orientation in the functions of the General Accounting Office began to emerge in the 1940's, later stimulated by the Commission of Organization of the Executive Branch of the Government, the Hoover Commission. The initial stimulus was provided by the Comptroller General, himself, working in conjunction with the Treasury Department and the Bureau of the Budget in what became informally, about 1948, the Joint Financial Management Improvement Program. The program was strengthened further with the passage of the Budget and Accounting Procedures Act of 1950.[678]

U.S. Accounting Procedures

The new act in our budget legislative history recognized that there was a need for a continuous program for the improvement of accounting and financial reporting of Government. In Part II of the Act, which may be cited as the "Accounting and Auditing Act of 1950," one finds that the Comptroller General can no longer prescribe independently the principles, standards and related requirements for accounting purposes which he could under the 1921 Act. Now, he must consult with the Treasury and the Director of the Bureau of the Budget, which he was already doing on an informal basis. The consultation was to be made on the basis of establishing methods and techniques of accounting which would suit the needs of all and which would have a "view to suitable integration between the accounting procedures of each executive agency and the accounting of the Treasury Department."[679] Thus, whenever the G.A.O. reviews the accounting systems of the executive agencies, he makes

---

[677] Burkhead, p. 371. [678] Ibid., p. 374; Brundage, p. 95.

[679] Accounting & Auditing Act of 1950, sec. 112.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

his review available to these two officers as well as the agency involved.

Nevertheless, there has been continual criticism of Federal accounting procedures. For example, Congressman William L. Dawson stated on 7 March 1965 that of the 128 organizations within the civil departments and agencies having accounting systems, only forty-one of them have been approved by the Comptroller General.[680] In part, for the reason of speeding up the adoption of more efficient accounting systems and, in part, to improve the operation of the Legislative Branch of the Federal Government, the United States Congress included a special section on Fiscal Controls in the Legislative Reorganization Act of 1970. Section 201 of the Act provides that, "The Secretary of the Treasury and the Director of the Office of Management and Budget, in cooperation with the Comptroller General of the United States, shall develop, establish, and maintain, insofar as practicable, for use by all Federal agencies, a standardized information and data processing system for budgetary and fiscal data." Additional provision is made in the following section for a joint report by the Secretary of the Treasury and the Director of the Office of Management and Budget with comments by the Comptroller General "as he deems necessary or advisable" with respect to progress and performance on the standardized information and data processing system as well as on a standard classification system for programs, activities, receipts and expenditures of Federal agencies.

Thus, for the first time in law, the importance of Government-wide classification and standard data systems was stressed. "The purposes

---

[680] Brundage, p. 97.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

being (1) to facilitate the consolidation of financial data from multiple sources in the executive branch; (2(to provide more meaningful summary data to Congress, including comparisons of like activities in different executive agencies; (3) more timely reporting; and (4) to facilitate the use of modern data processing techniques."[681]

Now, it appeared that the main burden was shifted to the O.M.B. and the Treasury Department for the implementation of accounting procedures. In August 1972, a Joint Committee of Congress reviewing the progress in implementation of the Act made additional recommendations requiring additional resources. The recommendations are not of interest so much in themselves, as their existence is in revealing some of the problems in volved in affording Congress the means of control over the nation's purse strings. In particular, the O.M.B. and the Treasury Report dated 1 September 1972 stated that considerable additional resources would be needed to meet the needs of Congress but that no further resources would be applied until agreement is reached on congressional requirements.[682] The situation implied is reminiscent of that occasioned by section 206 of the Legislative Reorganization Act of 1946 which gave substance to a previous recommendation "that the GAO be assigned the duty of making expenditures analyses on a continuing basis to enable Congress to have a source of analytical and interpretative data independent of the executive agencies." However, the purpose of the specific legislation "was not carried out because Congress did not appropriate funds to initiate such an operation."[683]

---

[681] U.S. G.A.O., "Implementation of Legislative Reorganization Act of 1970, repr. in Improving Congressional Control, (27 March 1973), p. 33.

[682] Ibid., p. 325

[683] Wallace, repr. in Improving Congressional Control.., (27 Mar. 1973) p. 440.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

French Accounting Procedures

In France, the need in law for a standard classification system had been expressed by the Decree of 1962 on public accounting. The law codified dispositions of the past one hundred years and, at the same time, placed them in a framework which would suit the new budgetary presentation. The accounting of public bodies should describe and permit control of operations as well as afford information to the authorities of control and management. Accounting procedures should enable the possibility of knowing and controlling budgetary and treasury operations and the Government's current position. The procedures should enable, also, the calculation of selling prices, costs, and efficiency of services along with the determination of annual results. Finally, all of the above should be organized to permit the integration of the various operations into national economic accounting.[684]

In the institutional setting of Government in France, it has been the Minister of Finance who establishes the accounting plan for the Government right along. The Treasury, in France, is a division of the Ministry of Finance and, as indicated in Chapter 8, all the public accountants belonging to the Treasury Division work under the authority of the Minister. Therefore, in the French case, to say that the central accounting agent of the Treasury is responsible for bringing together the various records for the general accounting of the State is to repeat that the Minister of Finance establishes the accounting plan in which the Treasury accounting agent operates.[685]

---

[684] Déc. Nº. 62-1587 (29 dec. 1962), art. 49.

[685] Ibid., arts. 133 & 134.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Dual Roles of the G.A.O.

In contrast, our executive departments and agencies have relatively more latitude in the procedures and performance of their duties. It made considerable difference when, in the initial U.S. budget act, the G.A.O. had sole responsibility for these matters and then, in 1970, it was placed in a less prominent position while the Office of Management & Budget and the Treasury Department moved forward. The organizational arrangement has been a matter of some concern for those in and out of governmental service for many years. In addition to the remarks initially formulated by Lucius Wilmerding on the subject of the Comptroller General as both auditor and comptroller, there have been others which claim that the Comptroller General has had a conflict of loyalties as well. In the Accounting and Auditing Act of 1950, Congress expressed its desire that "the accounting of the Government provide full disclosure and that the accounting systems maintained for the purpose "be the responsibility of the executive branch." We have observed, moreover, that it is the G.A.O. who jointly establishes and maintains the system according to the Act. Nevertheless, in the same Act, auditing is to be "conducted by the Comptroller General of the U.S. as an agent of Congress."

Perhaps, one of the reasons that the seeming conflict of parenthood did not cause major difficulties up to the time of the 1970 act is because the various groups concerned were friendly and the Bureau of the Budget simply did not have the staff to take on the additional responsibility.[386] In fact, it may explain, also, why progress on adoption

---

[686]Brundage, p. 97.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

of a standardized accounting system has moved so slowly as compared to the French system. In any event, the issues suggested do not appear to be fully resolved. An amendment to the Legislative Reorganization Act of 1970 has returned the lead role to the Comptroller General concerning "standardization of terminology, definitions, classifications and codes for fiscal, budgetary and program-related data and information."[687]

La Cour des Comptes and Budget Review

There is another important way in which the budgetary process differs in France as opposed to the U.S. Its importance has grown with the stronger emphasis in the French system, recently, on the role of the Court of Accounts in its review of past budgetary actions. Trotabas and Cotteret have said that the ultimate form of parliamentary control and the complement to budgetary authorization is the voting of the loi de règlement or final fixed budget.[688] This is the budget which establishes the actual results of the executed budget which is presented to Parliament for its inspection and approval. It is accompanied by various reports on the management of funds by the administration as well as the general declaration of conformity which the Court of Accounts is required to furnish.[689] This is the moment when Parliament could verify if what it has voted initially, has been respected. Nonetheless, in the years 1961 through 1968, there have never been more than two interferences by Parliamentarians with the passage of the approved budget results and, in addition, reports concerning them have never exceeded one page

---

[687] Congressional Budget & Impoundment Control Act of 1974, Statutes at Large vol. 88, Part ((1974), U.S. Code, vol. 31 (1970), sec. 801.

[688] Trotabas with Cotteret, p. 168. [689] Ord.1959, arts. 144 & 150.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

in the Official Journal.[690]

In spite of the seeming lack of interest on the part of the legislature, the reports of the Audit Department have become more analytical and detailed than previously and include comparisons of, and explanations for, intrayear variations in expenditures and receipts. These comparisons for expenditures did not appear at all, for example, in the report of the Court for 1961.[691]

The G.A.O. and Budget Review

In the United States, comparisons of initial and final budget results have only appeared to be of special interest in the past several years and not through the authority nor investigative powers of our own audit department. The interest has arisen, rather, as an expression of Congressional concern with the increasing rate of deficits. Beneath the Congressional concern, there has been the theme that an important contributory factor to the increasing size of deficits is "the failure to arrive at Congressional budgetary decisions on an overall basis."[692] One reason, of course, for the adoption of the new congressional budget procedures. The French Legislature, as described, does make budgetary decisions on an overall basis.[693] Another look at Table 12 in Chapter 7

---

[690] Cotteret & Émeri, p. 126.

[691] France. Cour des Comptes, Rapport au Président de la République suivi des Résponses des Administrations, Années 1960 et 1961, Extrait du Journal Officiel du 6 juin 1963, Doc. Admin. N°. 9: also Idem. Part I, "Les Opérations du Budget et du Trésor en 1971," J.O.

[692] U.S. Congress, Joint Study Committee of Budget Control, Recommendations for Improving Congressional Control over Budgetary Outlay and Receipt Totals, Report of the Joint Study Committee on Budget Control (18 Apr. 1973), p. 8.

[693] See above, Chapter 9.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

does reveal a persistent trend in France since 1958 towards deficits which represent a smaller fraction of outlays in each successive year if one chooses to use outlays as the criteria. There is no clear cut evidence on the same basis and over the same period that the U.S. deficits are increasing. Rather, the table suggests a continuation of the sporadic movements in the annual balance which raised it to over 14 percent of actual outlays in 1968 and to nearly 11 percent in 1971. Indeed, the "balanced budget" does seem to have disappeared in both countries as in only one year, 1969 for the U.S. and 1970 for France, has either country exhibited that condition.

It would seem that regardless of one's attitude toward the existence of deficits or their size, an important consideration should be the framework in which they appear over time. The NBER project discussed earlier[694] was one attempt among many which could be attempted in tracing the movements of expenditures, receipts and balances through time. The review of past conditions and their interaction with budget performance is essential to the continuous development of improved budgetary procedures and a healthy growing economy. Murray Weidenbaum has said that, "There is a great need for an effective annual review of the entire budget -- not the controllable 40 percent or 60 percent, but the totality of Government spending. This is going to require Congress to undertake the painful chore of reviewing decades of accumulated legislation that insulates specific programs from the annual review of the power of the purse."[695] This chore, of course, is exactly what is feared

---

[694] See above, Chapter 5.

[695] Murray L. Weidenbaum, "The Shortcomings in Congressional Budget Making" in Controlling Federal Government Expenditures. The Roles of Congress and the Administration. CED Symposium, p. 13.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

if the "sunset" bill procedures become law.[696]

Arthur Smithies was leading up to a similar conclusion when he suggested over twenty years ago that Congressional procedure is such that it attempts to determine the programs and achieve efficiency in the same operation and, hence, realizes neither goal effectively. He felt there would be a distinct improvement if there were a separate review of past performance. Arthur Smithies suggested that the review should have two results: (1) recommendations for improvements in departmental efficiency, and (2) provision of a framework in which to consider new appropriation requests. Furthermore, he commented, congressional procedure should be reversed in one respect. It is in the review of the past that Congress should insist and concentrate on detailed figures and reporting and not for those figure estimates offered for the future. Finally, the review process should yield the necessary information to establish the cost of execution of the various programs. This information, together with informed judgment and a President's Economic Report which preceded executive budget submission instead of following it, might enable Congress to be better prepared to consider the proposed budget.[697]

Unquestionably, the G.A.O. has increased the quantity and the quality of its independent audits of departments and agencies on behalf of the Congress in the years which followed these remarks. But, according to Brown, "Critics of the GAO, and of Congress's use of the GAO, maintain that Congress rarely, if ever, makes a complete and searching

---

[696] See Chapter 9.

[697] Smithies, repr. in Improving Congressional Control (27 Mar. 1973) pp. 375-380 & 385-386.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

review of an agency's operations at any one time. This situation is undoubtedly true, but Congress does not demand it of the GAO and, in fact, congressional organization discourages such an approach."[698]

Arguments about GAO's former documents were that they were too long and too detailed. The GAO proceeded to make shorter reports covering shorter periods and limited them to a few "very timely or pressing issues."[699] Up to the present time, therefore, Congress has not adopted a procedure whereby it views an audit and report on the whole completed budget. Even more importantly, the U.S. Congress has never formally reviewed and accepted past executions of budgets which it, initially, legislated. The introduction of the Congressional Budget and Impoundment Control Act of 1974 does not provide for any such change in the budgetary procedure. Without the practice suggested, two particular shortcomings of the budgetary process among others become visible. It is conceivable that irregularities in the execution of the budget may occur in particular programs within the budget that the G.A.O. does not detect because it has not audited it. It is conceivable, also, that the execution of the budget as a whole does not live up to congressional intent or purpose. Whatever the reason for that failure, an important source of information has been sorely neglected.

Contrasts in Reporting Information and Irregularities

As we have suggested, the French system does record this information in the now lengthy reports of the Audit Department. For example,

---

[698] Brown, p. 90.

[699] Ibid.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

part of the conclusions of the Court in its report on fiscal year 1969 included reference to the many large modifications of the crédits voted by Parliament initially. The movements resulting from advance decrees, annulments of crédits, transfers, reprogramming and the assignment of crédits from the reservoi chapters concerned 8.4 percent of the total crédits opened by the initial finance law as compared to 8.1 percent in 1968 and 7.2 percent in 1967. In addition, the Court complains, the amount of reassigned cooperative funds increased from 1.3 percent in 1967 to 1.9 percent in 1968 and attained 2.1 percent of crédits granted in 1969. As far as the utilization of crédits is concerned, they have exceeded authorizations of expenses, particularly in the annexed budgets and in the special accounts of the Treasury.[700]

The type of information collection described above is not available in any complete or consistent basis in the U.S. budget and fiscal data processing system in the period under consideration, or even at the present time. One can find, however, a "Statement of Certain Accounts under which it appears that Funds have been withdrawn from the Treasury in excess of Appropriations" in the Combined Statement of the Treasury Department not the Audit Department.[701] The information is not only obviously incomplete, but it has not been certified by an independent auditor for its accuracy or anything else before it is presented to Congress.

One further distinction between the French and U.S. budgetary

---

[700] France. Cour des Comptes, Rapport sur le projet de loi 1969, Part II, p. 79.

[701] See, for example, U.S. Department of Treasury, Fiscal Service, Bureau of Accounts, Combined Statement of Receipts, Expenditures & Balances of the U.S. Gov't. for Fiscal Year Ending 30 June 1971, Table E, pp. 54-57.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

systems is the former's concern with the activities of the perpetrators of changes in the budget accounts as well as the accounts, themselves. For this purpose, a new public organ had to be created as the legal jurisdiction of the Court of Accounts is limited to the accounts and not the accountants though it can utilize the two communications described above.[702] The new organ is known as the Court of Budgetary and Financial Discipline and it was established by law in 1948. Its purpose is to deal with irregularities which may occur at the administrator's or ordonnator's level rather than at the level of accounts. The Court, however, has not lived up to expectations for it as a control organ. It has dealt with seventy-one affairs in the twenty-odd years of its existence up to April 1971 and, of these, only eighteen had decisions rendered by the Court with fifteen of them involving one or more penalties.[703]

The Court of Budgetary and Financial Discipline oversees any persons within the budgetary process who are outside the control of the Court of Accounts and the Commission of Verification of Accounts of Public Enterprises. It does not oversee the control of Ministers, Presidents of general councils, Mayors and deputy Mayors or municipal advisers, elected Presidents of associations or syndicates or territorial collectivités whose responsibilities lie in the political arena.

The infractions studied by the Court are those pertaining to financial rules in the execution of receipts and expenses or management of property, or those infractions commited in matters of public markets

---

[702] Trotabas with Cotteret, pp. 161-166.

[703] Francis J. Fabre, "La Réforme de la Cour de discipline budgéteire et finançière," Révue Administratif vol. 24 (143), (sept,-oct. 1971): 539-543.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

when the action of the civil servant affords an unjustified advantage, either pecuniary or in kind, to others which, then, results in a cost to the Treasury or the concerned organ. The Court merely initiates the disciplinary procedure by asking the superior of the agent who is suspected at fault to report within six months on measures taken. The agent, however, is not liable for any penalty if he has a written order from his superior to perform the act in question. The penalties range from a minimum of one hundred to five hundred francs to a maximum of the amount, or double the amount, of the annual salary of the agent.[704]

In its organization, the Court of Budgetary and Financial Discipline is a tribunal composed half of members of the Court of Accounts and, the other half, members of the Council of State. The Court can be asked to make inquiries by three different groups of authorities: the Presidents of the two houses of Parliament, the Prime Minister and the Minister of Economy and Finance of the Government, or by the authorities of independent control such as the Court of Accounts or the Commission of Verification of the Accounts of Public Enterprises.[705]

In the U.S., the Comptroller General has the opportunity of dealing with irregularities which may occur in the execution of the budget through the observations which he draws from the periodic accounts which must be forwarded to him by the disbursing officers. The disbursing officer, as his European equivalent, is subject to personal liability if an item is "disallowed", but not to a penalty. In addition, the entire affair occurs without the prior intervention or knowledge of Congress unless the disbursing officer applies for relief legislation if he was negligent or at fault.[706]

---

[704] Lequéret, pp. 51-52. [705] Ibid. [706] Bartelt, 116.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

PART IV

SOME COMMON PROBLEMS IN "EFFICIENCY" AND "CONTROL" OF THE BUDGET AND THE BUDGETARY PROCESS NOW AND IN THE FUTURE

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

CHAPTER 12

EXECUTIVE SPENDING DISCRETION

Introduction to Part IV

The purpose of Part IV is to provide a more intensive examination of some major common problems revealed in the earlier discussions of the budget and the budgetary process of the two nations. The present chapter, "Executive Spending Discretion," is concerned with the execution phase of budgeting and the concepts of efficiency and good management in serving allocation and stabilization goals. On the other hand, Chapter 13, "Legislative Spending Discretion," is concerned with the role of the legislature in budget-making and the budgetary process. In the chapter, the various concepts and forms of control which the legislature must recognize and/or achieve, as the case may be, are analyzed. In general, the problems considered here occur during the authorization phase or what is now known as the "congressional action" phase of budgeting. In the final chapter of Part IV, "Concluding Remarks on the Past and Future of Budget-Making Given the Congressional Budget and Impoundment Control Act of 1974," the provisions of the new act are explained and their possible consequences indicated. Fiscal Year 1977 was the first year in which the Act became fully operative. Without question, the Act is an important one not only for its revision of traditional budget procedures, but for its radical change in congressional committee structures. The concern of this study, however, will be confined to the former aspect.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Overview of Chapter 12

The executive's role in furthering economy and efficiency during the execution phase of the budget process is a complex one. As there has been considerable change in the interpretation of "efficiency" in the context of public finance, the chapter begins with an examination of several versions of the concept over time. In the end, a synthesis is recommended which conceives of "efficency" as a method not as a goal. The stabilization objective is then examined in terms of what might be the most "efficient" method for achieving it. Executive spending discretion and flexibility of the budget in general are analyzed in the light of the French, U.S. and German experiences. The concept of "controllability" of the budget is introduced and quantitative data supporting it are included. Impoundment of funds as a stabilization tool is considered, also. Dissatisfaction with the outcome of stabilization policies has been expressed by observers in all three countries. Thus, the chapter concludes with some comments on possible future paths to greater "efficiency" in achieving stabilization goals.

Turning now to executive spending discretion and the problem of defining "efficiency" first, the following pages contain an examination of several interpretations of that concept.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

"Relative" Efficiency

> The criterion of efficiency is most easily understood in its application to commercial organizations that are largely guided by the profit objective. In such organizations the criterion of efficiency dictates the selection of that alternative, of all those available to the individual, which will yield the greatest net (money) return to the organization. This 'balance sheet' efficiency involves, on the one hand, the maximization of income, if costs are considered as fixed; and on the other hand, the minimization of cost, if income is considered as fixed. In practice, of course, the maximization of income and the minimization of cost must be considered simultaneously -- that is, what is really to be maximized is the difference between these two.[707]

The above criterion, however, must be reconsidered for applicability to noncommercial organizations where the factors involved may not be measurable in money terms. Here, it is necessary to define objectives in terms of some common denominator of value and to state as well the degree to which the objective should be attained. These are, in effect, the aggregative values but it will be necessary, also, to assign weights to the distributive values contained therein. "A playground built on the west side will not serve children on the East side. If chess classes are offered at the social center, there may be no facilities available for persons interested in social dancing."[708]

To Henry Simon, the common denominator for value is the criterion of efficiency. The reason being because the fundamental problem in decision-making is finding a common ground between the two values with which efficiency is concerned, cost and results. For him, the mistake in administrative choice occurs when two possibilities are compared without recognizing the scarcity of available resources. One can only

---

[707] Simon, pp. 172-173.

[708] Ibid., p. 178.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

compare these two possibilities by noting the results obtained by the application of fixed resources to the alternative activities. In fact, "The criterion of efficiency dictates that choice of alternatives which produces the largest result for the given application of resources."[709] The definition, as Henry Simon recognizes, supplies the denominator but it does not supply the common numerator. There is still need to compare the values which are attained by the different paths of action.

More recent definitions of efficiency (in the late 1940's) used the term as the ratio between input and output. According to Simon, the idea makes sense in the physical sciences but not for the social sciences. In the physical sciences, perfect "efficiency" suggests that output should equal input derived from the law of conservation of energy. In the case of the administrator, the dictum is meaningless. The administrator never needs a measure of absolute efficiency and, in addition, he can expect output to exceed input, say, from "comparison of cost of fire protection with dollar losses from fire." Furthermore, the administrator does not need a numerical measure of efficiency, "but merely a comparison of greater or less between the efficiencies of two alternative possibilities."[710]

"Normative" Efficiency

Notably, the administrator's function is "to maximize the attainment of the governmental objectives (assuming they have been agreed upon) by the efficient employment of the limited resource that are available to him." Nevertheless, Dwight Waldo writing during the course of the same year, adds another dimension to the definitional problem by

---

[709] Ibid., p. 179. [710] Ibid., p. 181. [711] Ibid., p. 187.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

distinguishing between an objective as opposed to a subjective notion of efficiency. In the first sense, it is a "designation for the ratio between energy or potentiality on the one hand, and the effects or results on the other hand." In the second, or normative sense, "things are not simply 'efficient' or 'inefficient'. They are efficient or inefficient for given purposes, and efficiency for one purpose may mean inefficiency for another."[712]

In Waldo's view, efficiency must be related to man's purposes. As there is an entire hierarchy of man's purposes so there are various levels at which efficiency must be measured. At this point, attention is centered not simply on the problem of separating the objective and subjective notions of efficiency but on the progressive difficulty involved in measuring either one as we move up to higher levels of purpose where the frame of reference is more likely to vary.[713]

Henry Simon appeared more concerned with the objective notion of efficiency than Dwight Waldo. In Simon's book, Administrative Behavior, he suggested that to the extent that the decision making process can be factual and given scientific treatment that what one should seek is the determination of the production functions of administrative activities. He would define the objectives carefully for measurement purposes, define the variables which determine the degree of attainment of objectives, and make empirical investigations of alternative results when the variables are altered.[714]

---

[712] Waldo, p. 102.

[713] Ibid., p. 204.

[714] Simon, P. 189.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Efficiency in the Modern Microeconomic Text

Recent textbooks in microeconomic analysis, on the other hand, suggest that a definition of "economic efficiency of allocations" is provided by the concept of Pareto optimality. "An allocation is Pareto-optimal if production and distribution cannot be reorganized to increase the utility of one or more individuals without decreasing the utility of others."[715] The mathematical presentation of the conditions necessary for the attainment of Pareto optimality have been stated simply in the text on microeconomic theory by Henderson and Quandt. Efficiency in this context requires perfect competition in both commodity and factor markets along with the stipulations that: "(1) second order conditions are satisfied for each consumer and producer, (2) no comsumer is satiated, and (3) there are no external effects in either consumption or production."[716] It is demonstrated, then, that if consumers adjust their rates of commodity substitution to the given prices of any pair of goods, A and B, and producers adjust their rates of product transformation to the given previously stated prices of the same goods, A and B such that, it is also true that the price of each good, A or B, is equal to the ratio of the wage of the one primary factor, X, to its marginal product in the production of commodity A or B, then the resulting situation will be Pareto optimal.[717]

Of course, this concept of efficiency injected into our present framework would need, among other adjustments, the devised corrections

---

[715] Hames M. Henderson and Richard E. Quandt, Mircoeconomic Theory: A Mathematical Approach 2nd Edition, Economics Handbook Series, Seymour E. Harris, Ed., (New York: McGraw-Hill Book Co., 1971), p. 225.

[716] Ibid., p. 256 [717] Ibid., pp. 262-263.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

for external effects in consumption and production such as can be achieved through the use of taxes and subsidies. However, even then, it is not clear how we can achieve both "objective" and "subjective" efficiency. "Pareto optimality leaves a considerable amount of indeterminancy in the solution[718] not only because it accepts the prevailing income distribution and, hence, an optimal distribution of income does not enter into the model, but because society's preferences for full employment, price level stability and the desired rate of economic growth, for example, cannot be unambiguously summed up and scheduled. In addition, the problem of a forthright expression of demand in this area has arisen not only at the theoretical level but in the more practicable application of the principles of planning-programming-budgeting systems, PPBS, as well.

PPBS and Criticisms

The introduction of PPBS in 1965 was an attempt to expand the application of cost-benefit analysis to Government expenditure decisions. Cost benefit analysis, which can be traced back to the 1930's,[719] was actually a method of project evaluation and an applied and systematic method of "determining the composition of the budget of a given size and and how to allocate a total of given funds among alternative projects."[720] The notion of efficiency in the use of the scarce resources of the public

---

[718] Ibid., p. 264.

[719] Richard A. Musgrave and Peggy B. Musgrave, Public Finance in Theory and Practice, 2nd ed. (New York: McGraw-Hill Book Co., 1976), p. 155.

[720] Ibid.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

sector is satisfied for divisible projects by allocating outlays so that total benefits minus total costs are at a maximum. Alternatively, total benefits are maximized when for any two projects, the ratios of marginal revenue to marginal costs are equal. This criteria, however, is not useful when we have projects which are not divisible. Then, to make the choice, the projects are ranked according to their benefit cost ratios or their benefit minus cost to cost ratios. Then, the highest ranking project is chosen in order until the budget is exhausted. It is recognized that with the fixed budget, it may be that the last project undertaken will have a benefit cost ratio which exceeds one, in which case the rate of return in the public sector is greater than that in the private sector. The problem is avoided, claim the Musgraves, when a variable budget is considered. Then, "Public projects are expanded and private projects are restricted until the benefit from the last dollar spent in either sector is the same."[721] Hence, the outcome must be that the marginal benefit cost ratio will be one in both sectors. Of course, if projects are indivisible and there is no budget constraint, projects in the public sector should be undertaken as long as the benefit cost ratio exceeds one or if the absolute value of benefit minus cost is positive.

The system of program evaluation described above was one of the basic underlying concepts of PPBS when it was introduced. However, according to the Musgraves, instead of viewing projects which ordinarily would fall within the purview of an agency or a department, PPBS sought to obtain a view of the total benefits and costs of a program which included different appropriation categories and might spread across more

[721] Ibid., p. 158.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

than one department. Though, to encourage evaluation at the program level prescribed by the system of PPB, the budget included after 1970, a presentation of agency programs by programs as well as by appropriation category, the new information did not incorporate the many departmental overlaps nor the fact that many programs work through grants to state and local governments.[722]

Aaron Wildavsky has been even more critical of PPBS. According to him, "PPBS has failed everywhere and at all times." It is not, as some observers claim, that implementation of PPBS has been hampered by lack of data or trained manpower. It is rather, says Wildavsky, that "PPBS does not work because it cannot work. Failure is built into its very nature because it demands abilities to perform cognitive operations which are beyond present human (or machine) capacities."[723] We add, in turn, that PPB, even if it achieved the degree of efficiency in the allocation of resources which is desired, does not resolve all the functions of the budget process. It is not at all concerned with appropriation and control purposes which are discussed in the next chapter and it is only remotely concerned with executive management.[724]

---

[722] Ibid., pp. 198-201.

[723] Aaron Wildavsky, Budgeting: A Comparative Theory of Budgeting Processes (Boston: Little, Brown & Co., Inc, 1975), pp.363-364.

[724] Cf. Peter O. Steiner, "Public Expenditure Budgeting" in The Economics of Public Finance, Stidies of Government Finance, pp. 241-357 and pp. 297-331. Essays by Alan S. Blender and Robert N. Salow, George F. Break, Peter O. Steiner, and Dick Netzer (Washington, D.C.: Brookings Inst., 1974).

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

A Dynamic View of Efficiency

A more dynamic recent picture of the search for efficiency has been painted by Charles L. Schultze during a Roundtable Discussion in Dallas in December 1976.[725] He suggested that, in the private sector, we do not talk about changing production functions to achieve greater efficiency, we supply incentives to accomplish it. Why don't we follow the same road in the public sector? There is no incentive presently in the public sector to 'minimize cost' when the Atomic Energy Commission can get free missiles from another governmental agency.

From Charles Schultze point of view, the path to greater efficiency should be tracked through more reasonable schemes for decentralized incentives to harness the use of private resources for public purposes. In addition, efficiency requires much greater attention to the transition problems of getting from state A to state B rather than the present preoccupation with comparative static analysis. We need to identify the winners and the losers and to compensate the latter group to achieve our goals.

Views of Efficiency by Early U.S. Budget Specialists

Indeed, this is a large step away from the thoughts about economy and efficiency in the early years of the Federal budget. At that time, a good deal of emphasis was placed on their achievement through central methods of administrative control. General Dawes, the first Budget Director, who initiated the program sought better management

[725]Charles L. Schultze, "How Can Government Needs for Policy Research Be Better Met?" Roundtable Discussion at American Economic Association Meetings (Dallas: December 1976).

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

through the techniques of coordinating agencies or boards whose tasks included dealing on an "interdepartmental and regional basis with disposal of surplus property, Government procurement, printing, Government statistics, and simplified office procedures."[726]

However, interest in this kind of superstructure soon disappeared. It was revived in a different form with the Reorganization Act of 1939. The Division of Administrative Management, originally set up under the Act of 1921, never appeared to acquire the needed administrative responsibility to achieve economy and efficiency in Government operations. "Throughout its existence, it remained overshadowed by the Estimates Division and handicapped by the traditional view that the process of budget preparation and the process of apportionment were the main roads to economy and efficiency."[727] In 1952, the staff of the Divisions of Administrative Management and Estimates were merged and the Bureau, itself, was reorganized into several program divisions. Essentially, according to Arthur Smithies, experience dictates that it is within departments where economy and efficiency drives must begin. In his view, centralized measures have not proved to be continuously successful in themselves.[728]

Efficiency Relative to the Legislative Process

A different point of view is suggested by another writer on "efficiency" who sees the efficiency of the legislative process and the choice of efficient methods of operation enhanced by the procedures selected with respect to content, netting and timing within the budget formulated by the executive. To Carl Shoup, "Efficiency of the

---

[726]Smithies, P. 151. [727]Ibid., p. 153. [728]Ibid., p. 152.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

formulation of the budget and the legislative process refers in this context to the ability of the executive, in formulating the budget, and the legislature, in passing on it, to make comparisons intelligently."[729] The problem, however, as revealed by this economist, appears to be the possibility of conflict between the efficient choice and the one in which the public will have confidence and will understand. In this framework, efficiency would require a comprehensive budget but, says Shoup, the public reacts to large budget totals as well as to deficits or surpluses. One way around the problem is to use appendices for any items not included for the sake of public understanding and/or providing sufficient detail under the "means of financing" or "disposal of surplus." This system, admits Shoup, would require "considerable educational effort" for public understanding.

Again, netting is not helpful for the comparison purposes necessary for efficiency considerations but, from the public point of view of budget totals, it may be appropriate. Timing creates the most difficult problem of all. It is, perhaps, because of this factor that we do not have a capital budget. It is claimed that a capital budget would distort the legislator's choice of investment in physical versus human capital. The way it works, describes Mr. Shoup, would be that with the capital budget, investment in a building would not be a part of the total budget for the current year. However, teacher's salaries or investment in education would be. Thus, the legislator wishing to keep current budget totals low is predisposed to capital-intensive rather than labor-intensive expenditures. A second problem is that a capital

---

[729] Shoup, p. 505.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

budget "probably does not advance understanding and confidence on the part of the public as a whole." On the other hand, claims Shoup, "Choice of efficient methods of operating the Government will be hampered if capital-budgeting accounting is not employed."[730]

Add to these problems the fact that efficiency problems are at the very "heart of economic theory," yet "the meaningful application of efficiency analyses to problems on the level of the national economy is an unresolved question. So far, it is not yet possible to achieve optimization of the national economy in accordance with the rules of linear programming. Nevertheless, one cannot overlook the frequent attempts to assess the efficiency of economic policy measures."[731]

An Emerging View of Efficiency

The problem has been, for our purposes, that efficiency has not been properly defined in the broader context. Though we have suggested alternative theories and their development above, most recent adaptations have tended to remain confined to the concept of allocational efficiency as opposed to, for example, stabilization or distribution of income objectives. This horizontal stratification of macroeconomic goals first expounded by Richard Musgrave in his text, The Theory of Public Finance, was a huge step forward in the clarification of public sector problems and their solutions. Nevertheless, it tended to submerge the vital role which efficiency can play in any one of the frameworks.

---

[730]Ibid., pp. 503 and 507.

[731]Christian Watrin, "On the Question of Measuring the Efficiency of Economic System," The German Economic Review vol. 11, no. 2, 1973, p. 89.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Efficiency is not truly a goal in and of itself but is, rather, a best technique or method of achieving a goal. Further, it can be a best technique or method which a goal is chosen above others, or ranked, or achieved retaining, if you will, the least costly combination of inputs. In this sense, efficiency is a vector (s) which leads from our limited means to our overall economic goals. Thus, we can conceive of efficiency as a moving force in the vertical integration of global economic balance which subsumes the budgetary balance or imbalance along with its financing. Unfortunately, we still remain without the operational content that such a definition requires.

There are three particular aspects of efficiency or the efficient method in budgeting which need further information and clarification for the desired workability. These aspects concern the feedback effects of chosen policies, the appropriate balance of power between the Executive and the Legislative Branch, and lastly, the definition of the role of financing techniques in the budgetary process. In the first case, it has been recognized that not only does the Federal budget react to national economic activity but it, in turn, can influence that activity. The phrase "fiscal policy" which may have been synonomous with public finance, originally, [732] has assumed a much broader meaning. It utilizes the tools of taxation, expenditure and debt management to stimulate or stabilize the economy with special reference to the level and, more recently, to the rate of change in national income, employment and prices. In its basically indirect approach through the budget, it attempts to "control" the economy by affecting the private and public

[732] Burkhead, p. 60.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

spending. Inasmuch as it does so, fiscal policy affects the distribution of political and economic power within the society where it is practiced. However, that observation is not lost to those who wield the fiscal policy tools nor to those who are affected by them. Thus, the efficiency concept would need to embrace feedback effects of alternative policies, also.

In the second case, the technique of fiscal policy in the U.S. has been concentrated upon short-term objectives primarily though, obviously, indirectly affecting long-term objectives as well. In other words, the policy pursued has been based intentionally within the framework of the annual budget year. But, in a budgetary process where only the Executive Branch has an overall view and a policy position with respect to total expenditures, receipts and the balance, and where only the Executive Branch has the power to spend or not to spend once the budget becomes law, there has been a certain amount of objections raised by the authorizing branch. One group of these objections stressed the theme of an authoritarian Presidency imbalancing the power structure,[733] while another group traced objections through the loss of congressional power over the purse strings of the nation.[734] Efficiency considerations should dictate a priority ordering of these negative strains.

In the last case, the arguments begin, well before the compensatory fiscal policy techniques which were introduced after World War II and which stress "that the guiding consideration at all times shall be

---

[733] See, for example, Irving Kristol, "The Inexorable Rise of the Executive," The Wall Street Journal, (20 Sep't. 1974): 12; Richard E. Neustadt, "The Constraining of the President," The New York Times Magazine (14 Oct. 1973) 38.

[734] U.S. Congress, Joint Study Comm. on Budget Control, Interim Report, in Improving Congressional Control, (27 Mar. 1973); p. 175.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

the state of the economy."[735] They begin with the conflict of the Roosevelt era which was that at the same time that there was a contraction in general expenditures, there was an expansion in emergency expenditures to meet the wartime effort. A certain analogy seemed to develop between the means of financing the war effort and the means used earlier to "finance" the depression. According to the theory of "pump-priming" in the thirties, funds used must be derived from inactive sources - that they do not represent a subtraction from active purchasong power." It was felt that loan-financed expenditures met this requirement best.[736] However, the resulting deficit in the Federal budget was in no sense, planned. Efficiency consideration, had they been so defined, could have identified the links between the loan-financed expenditures, the resulting Federal budget deficit and the desired state of the economy.

Nevertheless, the development from the concept of good management and efficiency in Government in the early days of Federal budgeting to more recent versions had begun. General reserves, in the early 1920's, were used as a store of savings resulting from efforts of individual departments or establishments to spend less than was actually appropriated to carry out their activities. This notion of "efficiency" arising from the idea of the appropriation as a ceiling on expenditures rather than as an obligation to spend. The apportionment process in these years until 1933, remained an internal department decision and served two objectives. It was used to prevent deficiencies as required by law and to effect savings as directed by administrative ruling.

---

[735] Kimmel, p. 195. [736] Ibid.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

With the Economy Act of 1933, apportionment schedules became subject to the approval of the Budget Bureau. The links between apportionment, impoundment, efficiency and economy were not fully appreciated until much later. In a similar way, "pump-priming" a temporary expedient, developed into the more permanent idea of compensatory fiscal policy after World War II and the Employment Act of 1946. Thus, the modern notion of economy and efficiency in Federal budgeting demanded flexibility and good judgment on the part of the executive in spending and in financing that spe[illegible] for the general welfare during the budget year while, at the same time, it demanded attention and concern to the voted budget as an expression of congressional intent.

Efficiency and Stabilization Policies

The executive search for economy and efficiency in the first sense has been fraught with difficulties. These difficulties have arisen from at least four sources: (1) errors in analyzing the present and predicted state of the economy, (2) the political feasibility of agreement on those states and what to do about them, (3) the limited means available to achieve the desired state of the economy and (4) the speed and effectiveness with which the economy responds to the chosen tool or tools.

As far as statistical errors are concerned both nations are working to improve data collection and information systems together with refining forecasting procedures and techniques, as discussed in Chapter 8. With respect to the political evaluation of the problem and the implementation of the solution, the answer is much less technical. In both the United States and the French systems, changes in spending can be

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

initiated more rapidly than changes in taxing, once the problem is recognized. The logic of the argument rests on the fact, in other nations, the accord of the respective legislature is required before either the rate of or the conditions of tax collection may be changed.[737]

Nevertheless, the use of either tax or expenditure policy as a stabilizing device must be considered in a broader framework than suggested by the artificial separation of executive management functions suggested above. For example, does the use of one or the other policy change the relative priorities of our short or long term goals; or, does it shift resources in such way as to change the total or the composition of the total benefits and costs of any given goal? These questions, of course, are a direct outcome of the new broader concept of efficiency suggested above.

Earlier analyses of expenditure flexibility compared to tax cuts for stabilization purposes concentrated on timing elements, e.g., recognition, implementation, and hence, actions that would involve the executive branch, primarily. Wilfred Lewis, Jr. in Federal Fiscal Policy in Postwar Recessions,[738] reported on opinions and actions taken concerning budget policy during the recession and recovery period from 1935 to 1955. He noted that the Budget Director in a summary report made by his bureau on the flexibility of the budget before the Joint Committee on the Economic Report estimated that possibly $3 billion annually "could be added to Government expenditures by administrative action alone."[739]

In another instance, he notes - civil public works have a relatively poor potential for manipulation even with the use of supplemental

---

[737]Rivoli, p. 55. [738]Lewis, pp. 155-156. [739]Ibid, p. 156.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

appropriations, which involve the Legislative Branch. On the other hand, defense programs have very high administrative flexibility. Somewhat less flexibility, but still a major portion of purely administrative flexibility is that found in certain lending operations such as the Export-Import Bank and the Federal National Mortgage Association. According to Lewis, however, the Joint Committee did not agree that public works could be used importantly as a tool of stabilization through their acceleration, as this depended on prompt action by Congress.[740]

The report of the Joint Committee endorsed, rather, actions relating to the revenue side of the budget including "flexing depreciation over the cycle," tax cuts and, possibly, "easing of money and credit markets."[741] When the decision to speed up expenditures budgeted for fiscal year 1955 was decided upon, it involved the programs of the following agencies primarily: the Department of Defense, the Commerce Department, the Interior Department, the Agricultural Department, and the Office of Defense Mobilization. There was, however, a time lag of approximately three months between recognition of the need for speeding up public expenditures and the time when it actually became Government policy.[742]

The same problem has been observed more recently in Germany with the application of the "Gesetz zur Förderung der Stabiltat und des Waschstums der Wirtschaft" of 8 June 1967. The German Stabilization and Growth Law, in paragraph 6, sections 1 and 2, provided both for the possibility of expenditure "blocking" and for expenditure expansion in the area of public investments along with various tax, depreciation and other

---

[740] Ibid., p. 160. [741] Ibid.

[742] Ibid., p. 169. According to Lewis' account, the lag was from 5 February 1954 to 14 May 1954.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

fiscal tools to be used to achieve stabilization objectives. However, Fritz Neumark complained that during the strong boom period of 1968 to 1970, the available tools were not applied or applied much too late. In addition, he noted "the Government's retreat before the short-term interests of powerful pressure groups."[743] Finally, he observed that his "own view is that public investment spending should in principle be guided by long-run considerations. On the other hand, an anti-cyclical policy with regard to some transfer expenditures and even Government pay is -- within certain limits -- appropriate and not impossible."[744]

Expenditure "Controllability" and Stabilization Policy

Even more recently, questions concerning stabilization policy in the U.S. have been considered in the framework of the budget's expenditure "controllability." A negative form of the term, "Uncontrollable," as used in the budget documents, refers to those outlays in a set of accounts which have been mandated by an existing law or which have been undertaken to liquidate a contractual obligation which was incurred before the beginning of the fiscal year in question.[745]

These outlays are divided into three principal types: "payments for individuals," outlays from prior-year contracts and obligations" and "other open-ended programs and fixed costs." Payments for individuals include the social security trust funds veterans' benefits, medicaid

---

[743]Fritz Neumark, "The German Stabilization Law: a New Experiment" trans. by C. Marfels in, Modern Fiscal Issues: Essays in Honor of Carl S. Shoup, pp. 225-245, ed. by Richard M. Bird & John G. Head (Toronto: Univ. of Toronto Press, 1972), p. 240.

[744]Ibid., p. 233.

[745]Blechman, Gramlich, et al, p. 192.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

program, and unemployment compensation. The second category, "outlays from prior-year contracts and obligations" is further subdivided into both civilian and national defense programs while the "other open-ended programs and fixed costs" refer to net interest payments of the Government and farm price supports. After 1973, general revenue sharing is included here, also.[746]

Table 35 for selected years including 1950 to 1953 and 1955 and the years 1967 to 1971, is adapted from the U.S. Budget documents for fiscal years 1955, 1957, and 1976. The table, entitled "Controllability of Budget Outlays" for the designated periods, compares the above-mentioned categories of outlays with respect to "relatively uncontrollable under present law" with those which are "relatively controllable." It is obvious fro he table that total budget outlays have more than tripled between the two periods considered while, at the same time, the dollars spent on relatively controllable national defense programs has remained within the range from forty to fifty-three billions since 1952. This stability is not present in any other category. Total "relatively controllable" outlays ranged from 15.6 billion dollars to 16.3 billion dollars in the early period and jumped from 93.7 billion in 1967 to 140.4 billion dollars in 1971.

Table 36 translates the dollar sums described for each period into perspective by expressing them as a proportion of total budget outlays in the appropriate fiscal year's budget. It is clear, then, that national defense has declined as a proportion of total outlays by more than one half of its previous position in the early period. In fact, all

---

[746]See U.S. Budget Fiscal Year 1976, Table 14, "Controllability of Budget Outlays," p. 354.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE

CONTROLLABILITY OF BUDGET OUTLAYS:

	1950	1951	1952	1953	1955
Relatively uncontrollable under present law:					
Pymts. for individuals				$ 3.8	$ 3.8
Interest				6.6	6.4
Other programs				4.5	6.1
Total: Major programs				$ 14.9	$ 16.3
Outlays fr. prior yr. contr. & obligations:					
National defense					
Civilian programs					
Total: Prior year					
TOTAL: Relatively uncontrollable	$ 15.6	$ 12.1	$ 12.3	$ 14.9	$ 16.3
Relatively controllable outlays:					
National defense	13.0	22.3	43.8	50.3	40.6
Civilian programs	11.0	9.6	9.3	8.8	7.6
TOTAL: Relatively controllable	$ 24.0	$ 31.9	$ 53.1	$ 59.1	$ 48.2
Undistrib. Employer share, employee retiremt.					
TOTAL OUTLAYS	$ 39.6	$ 44.0	$ 65.4	$ 74.0	$ 64.6

TABLE

CONTROLLABILITY OF BUDGET OUTLAYS AS PROPORTION OF

	1950	1951	1952	1953	1955
Relatively uncontrollable under present law:					
Pymts. for individuals				5.1	5.9
Other				15.0	19.3
Outlays fr. prior yr. contr. & obligations:					
National defense					
Civilian programs					

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

35

SELECTED YEARS IN 1950'S AND 1967-1971 (Billions of Dollars)

1967	1968	1969	1970	1971
$ 41.8	$ 47.6	$ 54.9	$ 62.2	$ 77.3
10.3	11.1	12.7	14.4	14.8
4.7	6.2	6.9	7.6	8.0
$ 56.8	$ 64.8	$ 74.5	$ 84.2	$100.1
21.2	24.6	25.0	24.5	21.6
15.8	17.8	16.9	17.0	18.6
$ 37.0	$ 42.3	$ 41.9	$ 41.5	$ 40.2
$ 93.7	$107.2	$116.4	$125.7	$140.4
46.1	52.7	52.6	51.8	51.8
20.1	20.8	17.6	21.5	21.9
$ 66.2	$ 73.5	$ 70.1	$ 73.3	$ 73.7
- 1.7	- 1.8	- 2.0	- 2.4	- 2.6
$158.3	$178.8	$184.5	$196.6	$211.4

36

TOTAL BUDGET OUTLAYS: SELECTED YEARS IN 1950'S AND 1967-1971

1967	1968	1969	1970	1971
26.4	26.6	29.8	31.7	36.6
9.4	9.6	10.6	11.2	10.8
13.4	13.7	13.6	12.5	10.2
10.0	10.0	9.1	8.6	8.8

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE

	1950	1951	1952	1953	1955
TOTAL: Relatively uncontrollable	39.4	27.5	18.8	20.1	25.2
Relatively controllable outlays:					
National Defense	32.8	50.7	67.0	68.0	62.9
Civilian programs	27.8	21.8	14.2	11.9	11.9
TOTAL: Relatively controllable	60.6	72.5	81.2	79.9	74.8
Indistrib. employer share; employee retiremt.					
TOTAL OUTLAYS	100.0	100.0	100.0	100.0	100.0

SOURCES: U.S. President, Bureau of Budget, U.S. Budget for Fiscal Years 1955 and 1957. Also, Office of Management and Budget, U.S. Budget for Fiscal Year 1976, p. 354.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

36-Continued

1967	1968	1969	1970	1971
59.3	59.9	63.1	64.0	66.4
29.1	29.5	28.5	26.3	24.4
12.7	11.6	9.5	10.9	10.4
41.8	41.1	38.0	37.2	34.8
- 1.1	- 1.0	- 1.1	- 1.2	- 1.2
100.0	100.0	100.0	100.0	100.0

NOTES: Most figures of Table 36 have been calculated here from figures given in Table 35.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

relatively controllable outlays, defense and civilian programs together, represent only slightly more than one third of the budget in the later period while they represented three fourths of the budget in the early fifties. Table 37 which extends the data through 1976 also continues the decline in relatively controllable outlays to little more than one quarter of total budget outlays (See Table 38 for percentage comparisons). The category, "Paymnets for Individuals" has clearly been responsible in the later period for the changing proportions. In Tables 36 and 38, the proportion of national defense in total budget outlays declined by half in the ten year period, the proportion of civilian defense and other programs were practically unchanged while "Payments for Individuals" almost doubled from 26.4 percent in 1967 to 47.3 percent in 1976.

From Table 39, "Index of Annual Growth of Relatively Controllable and Uncontrollable Budgetary Outlays," it appears that the greatest acceleration in the movement of "Payments for Individuals" occurred during the last three years, 1974 through 1976. National defense has contributed the least to the growth of uncontrollable outlays with an average annual increase over the ten years of little more than 1 percent. The second highest contribution to the increasing proportion of uncontrollable outlays in total budget outlays are other programs which included farm price supports and, since 1973, general revenue sharing. Figure 6 portrays pictorally the erratic rate of growth of this category compared to the steady growth pattern of payments for individuals and net interest. Undoubtedly, this category's behavior is at least partially due to the nature of farm price supports which are completely market determined. Since 1974, however, they represent a considerably smaller part of this category yielding way to strong increases in general revenue sharing and

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 37

CONTROLLABILITY OF BUDGET OUTLAYS 1972-1976

(Billions of Dollars)

	1972	1973	1974	1975	1976
					(estimate)
Relatively uncontrollable under present law:					
Pymts for individuals	$ 88.4	$ 99.6	$115.4	$144.4	$165.1
Interest (net)	15.5	17.4	21.5	23.6	26.1
Other programs	10.4	16.5	13.9	15.0	15.6
Total: Major programs	$114.3	$133.4	$150.8	$183.0	$206.8
Outlays fr. prior yr. contr. & obligations:					
National defense	19.9	18.3	20.9	22.3	23.5
Civilian programs	19.4	21.3	22.9	26.8	30.5
Total: Prior year	$ 39.2	$ 39.6	$ 43.8	$ 49.1	$ 54.0
TOTAL: Relatively uncontrollable	$153.5	$173.0	$194.5	$232.1	$260.7
Relatively controllable outlays:					
National defense	53.5	52.6	53.0	56.9	63.4
Civilian programs	27.7	23.8	24.2	28.5	29.1
TOTAL: Relatively controllable	$ 81.1	$ 76.4	$ 77.2	$ 85.4	$ 92.5
Undistrib. employer share, employee retiremt.	- 2.8	- 2.9	- 3.3	- 4.1	- 3.9
TOTAL OUTLAYS	$231.9	$246.5	$268.4	$313.4	$349.4

SOURCE: U.S., President, Office of Management and Budget, U.S. Budget for Fiscal Year 1976, p. 354.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 38

CONTROLLABILITY OF BUDGET OUTLAYS AS PROPORTION OF TOTAL BUDGET OUTLAYS

1972-1976

	1972	1973	1974	1975	1976
Relatively uncontrollable under present law:					
Pymts for individuals	38.1	40.4	43.0	46.1	47.3
Other	11.2	13.8	13.2	12.3	11.9
Outlays fr. prior contr. & obligations:					
National defense	8.6	7.4	7.8	7.1	6.7
Civilian programs	8.4	8.6	8.5	8.6	8.7
TOTAL: Relatively uncontrollable	66.2	70.2	72.5	74.1	74.6
Relatively controllable outlays:					
National defense	23.1	21.3	19.7	18.2	18.1
Civilian programs	11.9	9.7	9.0	9.1	8.3
TOTAL: Relatively controllable	35.0	31.0	28.7	27.3	26.4
Undistrib. employer share, employee retirement	- 1.2	- 1.2	- 1.2	- 1.4	- 1.0
TOTAL OUTLAYS	100.0	.00.0	100.0	100.0	100.0

SOURCE: See above, Table 37.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE

INDEX OF ANNUAL GROWTH OF RELATIVELY UNCONTROLLABLE

	1967	1968	1969	1970	1971
Relatively uncontrollable under present law:					
Pymts. for individuals	100.0	113.9	131.3	148.8	184.9
Interest (net)	100.0	107.8	123.3	139.8	143.7
Other programs	100.0	131.9	146.8	161.7	170.2
Total: Major programs	100.0	114.1	131.2	148.2	176.2
Outlays fr. prior yr. contr. & obligations:					
National defense	100.0	116.0	117.9	115.6	101.9
Civilian programs	100.0	112.7	107.0	107.6	117.7
Total: Prior year	100.0	114.3	113.2	112.2	108.6
TOTAL: Relatively uncontrollable	100.0	114.4	124.2	134.2	149.8
tively controllable lays:					
tional defense	.0	114.3	114.1	112.4	116.1
vilian programs	100.0	103.5	87.6	107.0	109.0
TOTAL: relatively controllable	100.0	111.0	105.9	110.7	111.3
TOTAL OUTLAYS	100.0	113.0	116.6	124.2	133.5

SOURCES: See above, Tables 35 and 37.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

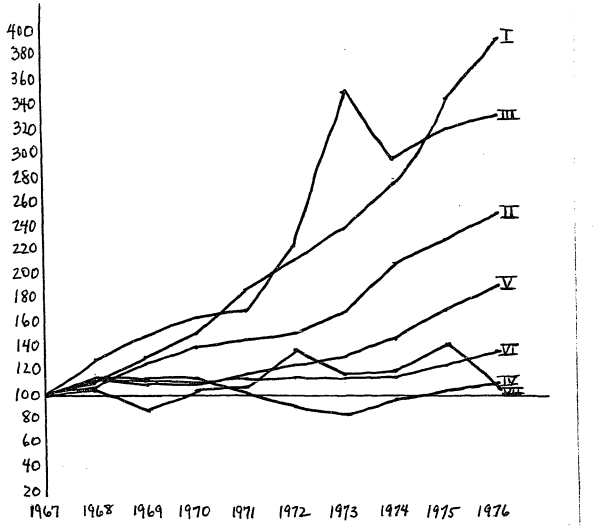
39

AND CONTROLLABLE BUDGETARY OUTLAYS 1967-1976

1972	1973	1974	1975	1976
211.5	238.3	276.1	345.5	395.0
150.5	168.9	208.7	229.1	253.4
221.3	351.1	295.7	319.1	331.9
201.2	234.9	265.5	322.2	364.1
93.9	86.3	98.6	105.2	110.8
122.8	134.8	144.9	169.6	193.0
105.9	107.0	118.4	132.7	145.9
163.8	184.6	207.6	247.7	278.2
116.1	114.1	115.0	123.4	137.5
137.8	118.4	120.4	141.8	109.0
122.5	115.4	116.6	129.0	139.7
149.7	155.7	170.0	198.0	220.7

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Figure 6. Index of annual growth of relatively uncontrollable and relatively controllable budgetary outlays 1967-1976.



SOURCE: Table 39.

Legend: Relatively uncontrollable

I Payments for individuals
II Interest (net)
III Other programs
IV National defense
V Civilian programs

Relatively controllable

VI National defense
VII Civilian programs

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

net interest components.

The examination of the controllability of budget outlays clearly indicates that the executive spending discretion during any fiscal year has steadily diminished over time. Does the fact that only one quarter[747] of Federal spending is controllable, reduce the Executive Branch's ability to use fiscal policy to fight intrayear or short run stability programs? Recent studies of the problem[748] suggest that on the domestic side of the budget, there are practical limits on spending reductions in the short run "without some policy decision to permanently retrench on grants-in-aid or to phase down research." These limits are "on the order of between $2 billion and $3 billion, concentrated on construction projects and, perhaps, salary increase limitations."[749]

On the defer and international side of the budget, claims the same Brookings study, there is the possibility of some controllability by changing the speed of purchases in operations and maintenance accounts and by changing military and civilian pay raises which could amount to three or four billion dollars. Together with changes in research, development, testing and evaluation and foreign aid areas, "anti-inflationary measures (with no significant policy changes) could probably reduce the budget for defense and international affairs by between $4 billion and $8 billion."[750]

Nevertheless, the study concluded that expenditures should not be used for fiscal policy purposes in the short run because "the short-term cuts that can be made produce results that are not consistent with the

---

[747]Blechman, Gramlich et al., p. 197. [748]Ibid., pp. 190-230.

[749]Ibid., p. 206. [750]Ibid., p. 204.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

efficient provision of Government services. Moreover, the accounting distinction that makes an expenditure controllable or uncontrollable provides very little guidance on where reasonable cuts can be made.[751] Thus, we are informed that taxes must be used to regulate the economy, "if one is interested in good government" - in the sense of business-like, efficient operations."[752] Nevertheless, there are drawbacks to the use of tax policy, say a temporary surcharge, for example. The two main drawbacks involved focus on the timing problem. Congress takes a notoriously long time to act on revenue measures and people may take a long time, if at all, to curb their spending because of the "temporary" income reduction.[753] The latter idea is derived, of course, from the thoughts of Milton Friedman who stated that "the transitory components of a consumer unit's income have no effect on his consumption except as they are translated into effects lasting beyond his horizon" and that they show up, therefore, "primarily in changes in the consumer unit's assets and liabilities, that is, in his measured savings."[754]

Impoundment of Funds and Stabilization Policy

Impoundment of funds is another aspect of the search for economy and efficiency in the short run which has caused considerable confusion in legal and political terms. Impoundment in the United States or the blocking of crédits in France was and is another way for the Executive Branch to accomplish the desired stability goal. The importance of

---

[751]Ibid., p. 207. [752]Ibid., p. 292. [753]Ibid., p. 209.

[754]Milton Friedman, A Theory of the Consumption Function, A Study by the National Bureau of Economic Research, New York (Princeton: Princeton Univ. Press, 1957), p. 221.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

impoundment, according to Senator Ervin[755] relates to is as a "challenge to the principle of separation of powers." to it as a violation of "the moral responsibility of the Executive to take care that the laws be faithfully executed" and to it as a denial of funds to the nation at large "that have been appropriated by law for specific and much needed purposes."

According to the Comptroller General of the United States, Elmer B. Staats, in his statement before the Subcommittee on Separation of Powers of the U.S. Senate on 30 Jan. 1973,[756] the issues of impoundment "rights" of the executive are considerably "clouded" by the fact that Congress has never clarified in its legislation just how far the President can go in withholding funds to achieve a particular Act's objectives. In that section of his statement which deals with the issue, Honorable Elmer B. Staats referred to public discussions on the subject of impoundment and noted

> very little reference to the authority of the President to reserve funds under the Anti-Deficiency Act, 31 U.S. C. 665. Subsection (c)(2) of that act provides that in apportioning any appropriation, reserves may be established (1) to provide for contingencies, or (2) to effect savings whenever savings are made possible by or through: (a) Changes in requirements, (b) greater efficiency of operations, or (c) other developments subsequent to the date on which such appropriation was made available.[757]

As Elmer Staats interpreted the act, the President has the authority to reserve funds for the purpose of providing for unforseen or

---

[755] U.S. Congress, Senate, Committee of the Judiciary, "Foreword" by Sam J. Ervin, Jr., in Comptroller General's Opinion of the Legality of Executive Impoundment of Appropriated Funds, prep. for the Subcomm. on Separation of Powers, Committee Print. (Wash. D.C.: Gov't. Pr. Off., 1974), (III).

[756] U.S. Congress, Senate, Committee of Government Operations, Statement of Hon. Elmer B. Staats" in Impoundment of Appropriated Funds, pp. 94-114.

[757] Ibid., p. 97.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

uncertain events frequently of a seasonal nature. Also, he may effect savings through managerial improvements or unforseen technological developments. However, according to Staats, there is not "any specific authority which authorizes the President to withhold funds for general economic, fiscal, or policy reasons.[758]

Senator Ervin, chairman of a subcommittee concerned in the matter, drew attention to the fact that the "total of $12.2 Billion represents nearly 20 percent of the total of controllable items in President Nixon's budget for fiscal year in 1971."[759] However, according to budget figures of Table 35, the $12.2 billion figure is slightly less than 17 percent of relatively controllable items and slightly less than 6 percent of total budget outlays.

Of course, as a proportion of gross private domestic product, the $12.2 billion is still comparatively less important, representing 1.8 percent of that sum. Nevertheless, as economists have claimed, "In all of the U.S. postwar experience, fiscal policy, as measured by the full-employment surplus, has never shifted more than 2 percent of GNP in one year."[760] Thus, there is some leeway here for meeting short term fiscal policy objectives, if maneuverability is desired on the outlay side of the budget. Of course, the necessary supporting legislation would have to be forthcoming to permit such a stance in view of Staat's remarks above.

---

[758]Ibid.

[759]U.S. Congress, Senate, Comm. on the Judiciary, "Statement" by Sam. J. Ervin, Jr., in Executive Impoundment of Appropriated Funds. Hearings before the Subcomm. on Separation of Powers (23,24,25 March 1971), (Wash. D.C.: Gov't. Pr. Off., 1971), p. 4.

[760]Blechman et al., p. 197.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Quantitative Evidence of Intrayear Variations in Budget Balances

For the period 1957 to 1971, we include here Table 40, which reveals that even the intrayear variation in the actual balance as a proportion of the smaller GPDP figure has exceeded 2 percent only three times during the fifteen years covered. Notice that the table, which includes comparable calculations for French balances, indicates substantially less intrayear variations for the latter. On the other hand, presentation of the figures in this fashion does disguise the comparison between executive freedom of action in the spending stage of the budget cycle of the two countries. Table 30, in Chapter 10, has indicated already that the French Executive Branch has been able to manipulate franc sums up to 8.2 percent of total budget expenditures for the years 1966 through 1971 by transfers, contingency reserves and so forth. In fact, a Senator had complained about these manipulations in 1967 and 1968. Monsieur Pellenc, the General Reporter on the Budget of the French Senate[761] complained about the abusive practices imputable to the Government such as opening crédits without the consent of Parliament, transfers, abnormal sums of carryover crédits and unjustified overspending or sterilization of funds destined for the expenses of investment. The very next year, he complained once again, that the budget for fiscal 1968 abandoned the two rules of good management. Neither the definite or the temporary expenditures and receipts categories are in equilibrium nor has the growth of the budget total matched the rate of growth

[761] Marcel Pellenc, "Les Practices abusives concernant le budget de l'état," Révue Politique des idées et des institutions 56 (14-15) août-sept. 1967, pp. 277-286.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 40

COMPARISONS BETWEEN INITIAL AND ACTUAL BUDGET BALANCES NUMERICALLY AND AS PERCENTAGE OF GROSS PRIVATE DOMESTIC PRODUCT IN THE UNITED STATES AND FRANCE 1957-1971 (Money Amounts in Millions of Dollars or Francs)

	UNITED STATES			FRANCE		
Year	Initial	Actual	Difference as % of G.P.D.P.	Initial	Actual	Difference as % of G.P.D.P.
1957	$ 435	$ 1,596	0.3	- 10,488f	- 11,680f	0
8	1,813	- 2,819	1.1	- 5.995	- 6,070	0
9	466	- 12,427	3.0	- 5,870	- 6,550	0.3
60	70	1,224	0.3	- 6.233	- 4,679	0.6
1	4,184	- 3,856	1.8	- 6,857	- 4,842	0.7
2	1,468	- 6,378	1.6	- 7,060	- 7,191	0
3	463	- 6,266	1.3	- 6,968	- 6,640	0.1
4	- 11,902	- 8,226	0.7	- 4,734	- 870	0.9
5	- 4,900	- 3,435	0.3	12	- 253	0.1
6	- 5,287	- 2,251	0.5	6	- 4,180	0.9
7	- 1,847	- 9,869	1.3	3	- 6,535	1.3
8	- 8,096	- 28,382	3.1	- 1,941	- 11,525	1.7
9*	- 11,776	- 5,489	0.9	- 6,354	- 1,480	0.8
70	- 6,848	- 13,143	1.0	5	565	0.1
1	- 7.337	- 29,866	3.3	8	- 1,753	0.2

SOURCES: U.S. Library of Congress, Congressional Research Service, Comparative Data on the Federal Government Budget Estimates Originally Submitted to Congress and the Final Budget Conditions Realized, Fiscal Years 1921-1974 by George K. Brite, rev. (29 Jan. 1973), reprinted in Improving Congressional Control over the Budget, pp. 355-358, A Compendium of Materials compiled by the Staff of the Subcomm. on Budgeting, Management and Expenditures of the U.S. Senate Comm. on Government Operations (27 March 1973). For basis of percentage figures, see above, Table 1.

France, Ministère de l'Économie et des Finances, Service de l'Information, Le Projet de budget pour 1972, Conférence de presse de M. Valéry Giscard d'Estaing, Ministre de l'Économie et des Finances (15 Sept. 1971): 4. For basis of percentage figures see Table 1.

*Administrative budget figures used for fiscal years 1957-1968. Federal Funds budget basis used for fiscal years 1969-1971.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

of production intérieur brut or gross private domestic product.[762] Among the weaknesses of the French Budget described by the French Senator are the fact that unproductive expenditures, expenditures other than for construction, equipment or national education, form too large a proportion of the budget (one-fourth, according to Monsieur Pellenc). A second weakness of the French budget, claims Monsieur Pellenc, is that in place of a less restrictive fiscal policy in 1968 as the United States has used with success to increase aggregate demand, France has gone in the opposite direction by applying a fiscal charge to a languishing economy.[763]

General Observations on Stabilization Policy Tools

In spite of the Senator's complaints, the French Government has made use of certain "optional" crédits in the French budget to meet the flexibility demands of short-term fiscal policy considerations.[764] Observers at the National Bank of France assessed the procedure of optional crédits defined in the Finance Law for 1970. They suggested that the crédits were only a first step designed to increase expenses because the 1970 budget would be very restrictive. The method could be improved, claimed the observers, by providing for the case of a reduction of expenditures as well. It is recognized that the Government does have the privilege of not using all the crédits voted but, until the present time, it has used the option in only a general way and without sufficient

---

[762] Marcel Pellenc, "Les Erreurs et les faiblesses de notre politique-budgétaire," Révue Politiques des idées et des institutions 57 (1-2), janv. 1968, pp. 14-24.

[763] Ibid., p. 19.

[764] See above, Chapter 10's discussion of transfers in time.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

preparation. The observers suggested that the budget include two optional slices: one for more and the other for less than the normal expenditures. In this way, both the case of an underestimated economy or an overestimated economy could be handled with Parliament well-informed on the plan.

A further assessment of the optional crédits by the observers for the National Bank of Paris suggested that the multiplicative effect of variations in budgetary expenditures is particularly marked for investment expenditures. Though this information would appear to make variations in investment expenditures an attractive tool for achieving stabilization goals, their use has disadvantages. Among these disadvantages are possible disruption of long-term programs and of labor markets and the long lead time necessary for them to get into action. The choice of non-exhaustive expenditures as a tool would not work well either because of strong psychological resistance. Variations in social transfers and subsidies may appear to be appropriate in theory but, perhaps, not so appropriate in practice, contrary to Fritz Neumark's opinion expressed above.

In viewing the budget as a whole, therefore, the observers state that the French Finance Law does not have much margin for manoeuvering expenditures, either of the operating or interventionist type, because of the high amount of services votés and crédits voted in block by Parliament. In turn, the reason why this is so is because the expenditures are considered indispensable to the functioning of the administration or because they result from measures previously taken. Therefore, the margin of manoeuverability could not be rapidly increased.

If the method of action under consideration is to achieve its

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

goal, claimed the observers for the National Bank of Paris, it will be necessary to give more flexibility to the budget itself. For that, it will be necessary to compress the volume of public expenditures in the beginning in such way that the fiscal collections which they induce attain no more than the maximum judged supportable. A reform of the structures of the budget and the employ of the method of rationalization des choix budgétaires, could reduce the weight of the services votés. In conclusion, the observers admit the fear that it will be a long time before stabilization policy works especially with the use of investment expenditures. Thus, not unlike the conclusions of their U.S. counterparts, they reject expenditure policy because of all the inconvenience it involves and recommend tax or monetary policy as preferable.

Jean Rivoli, another French economist, has expressed similar ideas but his solution rests firmly within the framework of long-range objectives. For him, stabilization policy can only be limited. The true problems and the true decisions in budgetary matters, according to Jean Rivoli, must be resolved within the framework of the Plan.[765]

Unhappiness with executive management from the point of view of stabilization policy has led to one additional suggestion in the United States which has been reiterated over the years since Arthur Smithies mentioned it in his classic.[766] The idea is the creation of a Joint Budget Policy Committee whose functions would include the consideration of the fiscal policies "embodied in the President's Budget and Economic Report" and would propose to Congress a concurrent resolution which

---

[765] Rivoli, p. 58.

[766] Smithies, repr. in Improving Cong. Control (27 Mar. 1973) p. 390.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

expressed their findings "with respect to the appropriate budget policy for the coming year."[767] However, the relevant point for our discussion here is that Arthur Smithies stresses that "The main business of the Joint Committee would be to introduce fiscal policy consideration of the economic impact of the budget into Congressional procedures " and that, because of the ongoing nature of the budgetary process, the committee would need to pursue an ongoing consideration of economic conditions and fiscal policy effects.[768] Furthermore, stressed Arthur Smithies, it will undoubtedly be necessary to coordinate the study of immediate actions and their effects with longer run objectives and paths to reach them. In 1964, John S. Saloma III, also, suggested that a Joint Committee on Fiscal Policy should be established. He felt that "Primarily, it should provide a forum for continuing congressional consideration of the budget, changing economic and political assumptions on which the budget is based, and the status of authorizations, appropriations, and revenue measures."[769]

---

[767] Ibid., p. 393.

[768] Ibid.

[769] John S. Saloma III, The Responsible Use of Power, A Critical Analysis of the Congressional Budget Process, (Wash. D.C.; Amer. Enterprise Inst., 1964), Part IV, repr. in Improving Congressional Control of the Budget (27 Mar. 1973): 550.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

CHAPTER 13

LEGISLATIVE SPENDING DISCRETION

Overview of Chapter 13

Implicit in the conduct of this chapter is the idea that the activities of the legislature can contribute a great deal to the improvement of the budget process though, admittedly, deficits and inflation will not be brought under control by the revision of the legislative budget phase alone.[780] It is not congressional reform of procedures and/or oversight which will move us in that direction most persistently, but the active participation of that body initially in the appropriate selection of decision making criteria.

At the beginning of the chapter, the meaning of the concept, "political control" is examined. Then the technical problems concerning the adoption of the executive's budget by the legislature and the legislature's control over the budgetary accounts are sketched briefly. The main focus will then shift to the consideration, in turn, of backdoor spending authority and its components, credit activities, and the relative size and growth of budget deficits. In the analysis of these issues, the approach will entail both the long and short term viewpoints.

---

[780] U.S. Congress, Senate, Comm. on Gov't. Operations, "An Examination of Recommendations for Improving Congressional Control over Budgetary Outlay and Receipt Totals" by Louis Fisher (14 May 1973) in Improving Congressional Control (1,7,9, May 1973), p. 318.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Finally, the relationships among deficits, their means of financing and the resulting effects on the national economy are explored. The plea for coordinated budget information on Treasury and Federal Reserve System activities to finance budget imbalances is registered.

Alternative Definitions for Budgetary Control

For several years, the U.S. federal budget has been linked with terms such as "Congressional budgetary control," "controllability of outlays" or "budgetary control through establishment of ceilings."[781] In France, also, there is an even longer history of concern over the linkage between the budget and "control." Not only does one read of "efficient control of the budget by Parliament" or "political control," but long descriptions of the administrative and legal controls as well accompany all expositions of the French budgetary process.[782] We are introduced to controls before, during and after the fact of expenditure along with the sanctions applied in the event of irregularities. We are introduced, also, to those who apply the "controls" both endogeneous and exogeneous to the budgetary process.

Eventually, it becomes necessary to interpret carefully what is meant by "control" because the definition, in fact, influences who, how and what is controlled. In both the United States and France, the sense of the term, "control" when applied to the budget originated with the idea of authorization. This definition, in turn, has had its origin in

---

[781] See Levy et al., Federal Budget Fiscal 1974, pp. 16-17; See U.S. Budget F.Y. 1969, p. 15, F.Y. 1973, p. 501 and F.Y. 1976, pp. 353-354; and see U.S. Congress, Joint Study Comm., Recommendations (18 Apr. 1973), p. 14.

[782] See Trotabas with Cotteret, p. 156; see Cotteret and Émeri, p. 106; and see Duverger, Finances publiques, pp. 324-359, Lequéret, pp. 37-52 and Cotteret and Émeri, pp. 103-126.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

the English budget which inspired both nations. In England, the fundamental law was recognized to be that the king could not impose a tax without the consent of Parliament.[783] It was not a big step from this idea to that of seeking the consent of Parliament for expenses as well, nor to that of observing the execution of the budget to assure the conformity of the execution to the authorizations granted by Parliament.

Budgetary control, continuing in this vein, was conceived as a renedition of accounts by which the Government, who had received budgetary authorization, was overviewed by the legislature in the sense of that body's verification that its decisions had been correctly executed. It is in the same spirit of "control" that the French Parliament is supposed to vote on the loi de règlement. Actually, the explanation of the term so far suggests control in both a legal and a financial sense. In current legal vocabulary, according to recent French writings on the subject, "control" implies a hierarchal report between two authorities. On the other hand, in financial terms, control suggests conformity between a rule and an act.[784]

Though these definitions are important, neither interpretation would, in practice, include the idea of "control" in its present aspects in the U.S., whereby it is claimed that (1) the budget is out of "control" because "the major part of budget expenditures are 'built in' as the result of decisions and commitments made in previous years" nor (2) "the constant continuation of deficits plus their increasing size illustrates the need for Congress to obtain better control over the

---

[783] Trotabas with Cotteret, p. 22.

[784] Cotteret & Émeri, p. 103.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

budget."[785] With these two definitions alone, it is not surprising that U.S. economists have begun to recognize the multiplicity of uses to the term, "uncontrollable" as well as the previous expression "control," and for illustrative purposes, several of them offer the following anecdote:

> To illustrate the confusion, we note that the Congressional Budget Office (COB) which was established to give Congress greater "control" over the budget (the act establishing CBO is Public Law 93-344. the Congressional Budget and Impoundment Control Act of 1974), was enacted by a Congress whose salaries are classified as "uncontrollable," signed by a President whose pay is "uncontrollable," and printed by the Government Printing Office, whose spending is classified as "uncontrollable." Funds for CBO's operations are provided from the uncontrollable portion of the budget.[786]

More seriously, the authors are concerned with two particular meanings of uncontrollable: one is technical and the other is analytical. The first meaning, the technical one, relates to the activities of the legislature in the budgetary process. Is it possible to change spending without legislative changes? The second meaning, the analytical one, is concerned with the "feasibility of changing federal expenditures both in the short run, when many other considerations also limit changes and, in the long run, when a much broader range of spending options can be considered."[787] As the latter meaning of the term can be related to both the actions of the executive and the legislature and we have discussed the major points pertaining to the executive in Chapter 12 we deal with legislative discretion, primarily here.

---

[785] Levy et al., p. 17, and see above, Chapter 12; See U.S. Congress, Joint Study Comm. "Recommendations" (18 April 1973), p. 1.

[786] Blechman et al., p. 191, footnote 3.

[787] Ibid., p. 192.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

In the following analysis, emphasis will remain on the positive side of the term rather than its negative, "controllable" instead of "uncontrollable." In addition, we will deal, essentially, with the idea of "control" or "uncontrollable" in two of the ways originally suggested by a French writer who attempted to classify the terms in view of their several meanings. One could classify controls, he claimed, according to (1) the nature of the persons being controlled, (2) the nature of the facts being controlled, (3) the time of the control, and finally, (4) the nature of the controlling organs.[788] Actually, these classifications are not mutually exclusive as we have seen, but they do offer a point of departure for a discussion of the successes and failures of the budgetary process in the two countries with respect to certain common legislative problems.

In our arrangement of the common problems of the legislatures, we will be concerned very little with classification (1), only partially with (2) and, primarily, with (3) and (4). We will limit the discussion of the time of control (3) to the authorization phase initially, though the other phases will enter at a later point. We will be concerned with the methods of controlling expenditures as opposed to receipts, (2) and, finally, as we have dealt with legal and administrative controls elsewhere,[789] the concept of political control (4) is our main concern in this chapter.

---

[788] Duverger, Finances, publiques, p. 324.

[789] See above, Chaps. 9 and 10.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Political Control in the Execution Phase

Political control will apply here not so much to the oversight that the legislature should preserve to verify the application of its decisions in budgetary matters but rather to its active formulation of these decisions in the first place. The extent to which the legislature designs and provides a budget law which adequately reveals its fiscal priorities with respect to means and ends determines, accordingly, the options open during the execution phase. The extent to which the legislature provides for its own annual review and approval of current outlays under all substantive and other legislation pertaining to budget matters determines, in part, the degree of control it has over any particular year's budget outcome.

As we have seen, in both nations, it is the Executive Branch who is uniquely responsible for the preparation of the budget until now. It has been the prerogative of that branch to make decisions on the estimates of total outlays, receipts and budget balances with or without financing methods as the legislative law provides. The Executive Branch proposes the budget of the State but, only, at the behest and with the approval of the legislature. Here is the first common problem. In what way(s) can the legislature express its disapproval if it should not wish to authorize into law the proposed executive budget?

The problem is common, the solution is not. In the United States, Congress adds, subtracts, modifies or whatever, in any way it chooses, the budget presented to it by the executive. In France, the choice is limited to Parliament's acceptance of the budget as it stands or not doing so and, thus, forcing the resignation of the Government and the dissolution of the Assembly. One writer has claimed that this situation

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

has meant the real decline of the French budget as a means of controlling the executive. According to the writer, Charles Zorgbibe, the reduction of the powers of authorization of the legislature was due originally to the fact that classical financiers, worried that the budget would be dismantled by supposedly irresponsible parliamentarians.[790] Today, the reasons offered are to avoid modifications which could touch the general equilibrium of the budget project or, as a way to avoid too great a fragmentation of budgetary authorization. Nevertheless, the limitations on the powers of the legislature can be extended to the point where legislative authorization is meaningless or useless.

In the eyes of this French analyst, the limit has been reached under the Fifth Republic. The ways of objection open to Parliament are superficial when the legislature can neither refuse to examine the budget nor refuse to vote on it. The reason being, according to article 47 of the Constitution, that the Government can simply make the budget law by ordonnance. Moreover, even though Parliament has the right to amend the budget through a rather difficult process, every amendment, even if it is constitutional, can be eliminated by the mechanism of the vote bloquée.[791] The Government simply presses for its own support by asking Parliament to vote on the text under discussion together with only those amendments which it has approved. The French Parliament, therefore, is either a chamber of affirmation or rejection of the Government, not the budget, itself.

In the matters concerning Parliament's powers in the supervision

---

[790]Charles Zorgbibe, "Le Budget, moyen de contrôle de l'executif", La Revue Administrative 20 anee (119) (sept.-oct. 1967): 524-530.

[791]Ibid., p. 529.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

of budgetary accounts, on the other hand, Parliament's control has been enlarged and made more precise.[792] For example, the Law of 1948 created the Court of Budgetary Discipline which Parliament can use to issue a legal reprimand to any Minister or personnel of a ministry who commits a reprehensible act, Furthermore, as the accounts are reviewed for closing purposes just two years after the fiscal year has passed, Parliament has the chance to judge a minister from the objective viewpoint of figures over twelve months and not, simply for one isolated case. In the United States, there is no similar overall review apparatus which could yield this type of information.[793]

With the laws enacted during the years 1930 through 1936, the French Audit Department gained more efficient control as well and submitted reports to the bureau of the assemblies. The Constitution of 1946 and the Law of 8 August 1950 increased the authority of the Audit Department and its relationship with the Parliament. The Central Committee of Inquiry was instituted to look for and propose measures to improve the return from ministerial services, public establishments, local collectivities and organisms of all kinds charged with assuring a public service. The Committee's surveillance included all organisms in which the State possessed a financial participation of more than 20 percent of social capital or who benefited from subsidies, advances or guaranties of the Treasury. The Committee is attached to the Prime Minister and is associated with the Audit Department though its independence from each is assured with respect to services or inquiries undertaken.[794]

---

[792] L. Bertrand, Le Contrôle parlementaire des finances publiques, (Paris: Clermont-Ferrand, 1962), pp. 13-15.

[793] See above, Chapter 11.

[794] Bertrand, pp. 18-20.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

In addition to the Central Committee of Inquiry, there is a committee charged with the verification of the accounts of public enterprises and the mixed companies. Under the direct auspices of Parliament, besides the Court of Budgetary Discipline, there are two other agencies of control: a legal informer and an administrative and financial control body which can be used to undertake investigations.

In the United States, the initial Budget and Accounting Act of 1921 did little more than transfer the powers and duties formerly the responsibility of the Comptroller of the Treasury and the six auditors of the Treasury Department and some of the duties of the Division of Bookkeeping and Warrants of the Office of the Secretary of the Treasury to the newly created General Accounting Office.[795] The Act provided that the Comptroller General investigate and report on matters concerning the expenditure and receipts of public funds at the executive's or legislature's request, but it did not require the organization to maintain accounts in spite of the organization's title.[796]

With the passage of Budget and Accounting Procedures Act of 1950, however, greater responsibility was placed on the GAO both in its role as an auditor and as a financial reporter.[797] In addition, the new role of the GAO concerning the search for "simplified and more effective accounting procedures" was initiated.[798] Neither of these acts

---

[795] Budget and Accounting Act of 1921, sec. 304.

[796] Robert D. Lee, Jr., and Ronald W. Johnson, Public Budgeting Systems, (Baltimore: University Book Press, 1973), p. 94.

[797] Budget and Accounting Procedures Act of 1950, sec. 111 (c).

[798] Ibid., sec. 111 (e).

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

nor later amendments, however, provided for any permanent committee or branches of the GAO to serve special purposes or to link its operations formally with either the Executive or Legislative Branch as have appeared in the French system.

Nevertheless, there is one point where efficiency of control is insufficient in France. The sanctions against wasteful spending do not include an infraction of the rules of execution of expenses. Therefore, it is the province of the ministerial authority alone and he hesitates to engage in a disciplinary procedure in the absence of the legal framework. According to a French critique, a superior authority is needed for this performance to be adequate and the authority should carry both executive and parliamentary status to judge the spending discretion invoked.[799]

Political Control in the Authorization Phase: Permanent Budget Authority

In the United States, however, spending discretion is not limited to executive authority and the execution phase. It has been suggested, for example, that for fiscal year 1974, more than one half of the uncontrollable expenditures discussed in Chapter 12 are governed by permanent appropriations.[800] The items included, as discussed above, are social security, medicaire, civil service retirement and interest payments. In addition, the liquidation of contract authority is a rising portion of uncontrollable expenditure. In fact, Allen Schick claims that the main factor in the escalation of expenditures is backdoor

---

[799] Bertrand, pp. 20-21.

[800] Schick, "Backdoor Spending Authority" in Improving Congressional Control (27 March 1973), p. 297.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

spending authorizations.[801] A major component of backdoor spending authority, as described in Chapter 8, is permanent budget authority. Table 41, on the next page, contrasts the growth of permanent budget authority with that of current and total budget authority as well as outlays. Note that the average annual rate of growth in permanent authority from 1954 to 1971 has exceeded that of both current budget authority and outlays. However, as Allen Schick has noted, the growth of permanent authority has been insufficient to explain the high rates of growth exhibited in the "relatively uncontrollable" portion of the budget in Table 39. Undoubtedly, this is partially due to the unpredictable size of commitments in the mandatory entitlement programs component of "payments for individuals."

In addition, Congress has had the tendency to increase the executive proposal for two important components of permanent authority, contract authority and borrowing authority, in every year but four for the first and every year but three for the second type of authority. Tables 43 and 44 on later pages, record the original and actual sums and their change for both the current and permanent authority components of contract borrowing authority.

Comparing contract authority to borrowing authority during the period 1955 through 1971 reveals the rapid rise in contract authority as a proportion of total budget authority. Table 42, below, indicates also the recent swing to higher proportions for borrowing authority or "authority to spend from debt receipts."

---

[801] Ibid., p. 293.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 41

INDEX OF ANNUAL GROWTH OF ACTUAL CURRENT, PERMANENT AND TOTAL BUDGET AUTHORITY AND OUTLAYS: FISCAL YEARS 1955-1971

	BUDGET AUTHORITY			
Year	Total	Current	Permanent	Outlays
1955	90.9	90.0	97.	94.3
6	110.7	108.0	128.3	103.1
7	111.0	116.2	83.3	104.3
8	108.8	109.3	105.1	103.6
9	106.6	107.4	99.9	112.2
60	97.8	94.7	123.3	94.8
1	108.9	110.4	99.9	106.5
2	107.1	107.3	105.6	107.7
3	110.1	111.0	103.7	105.5
4	98.8	97.0	113.5	105.4
5	105.4	106.5	98.7	98.8
6	118.6	118.6	118.7	110.8
7				
8	104.4	100.7	119.3	112.9
9	102.9	99.1	112.0	103.2
70	108.6	106.3	115.4	106.5
1	111.0	119.7	93.8	107.5
Mean	106.4	106.4	107.3	104.8

SOURCES: See above, Tables 22 and 27

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 42
ACTUAL CONTRACT AND BORROWING AUTHORITY AS A PROPORTION OF TOTAL BUDGET AUTHORITY

Year	Actual Contract Authority as a proportion of	Actual Borrowing Authority Total B.A.
1955	1.7%	5.3%
1960	0.1	2.3
1965	1.5	1.0
1970	4.3	2.9
1971	5.0	6.3

Source: Tables 27, 43, and 44.

The Department of the Treasury has explained that

> The authority to expend from public debt receipts is a term identified with legislative authorizations to use, for specific purposes, Government funds realized from the sale of public debt securities. This practice came into use in 1932 to finance activities of the Reconstruction Finance Corporation and has since been used numerous times to finance various Government programs.[802]

According to the Department of the Treasury, among the agencies of Government obtaining such authorizations were the International Bank for Reconstruction, the Commodity Credit Corporation of the Agricultural Department, and the Post Office Department. These agencies are provided with either public debt and/or agency debt authorizations with a maximum amount of borrowing outstanding preset for each type and in combination.[803] The legislation providing for these authorizations can be contained in either appropriation or substantive legislation. When it is contained in the latter, it bypasses the action of the appropriations committees but has the same force of law as if it had not. In the years

[802] U.S. Department of the Treasury, Fiscal Service, Bureau of Accounts Combined Statement, 1971, p. 588.

[803] Ibid., p. 593.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 43

CONTRACT AUTHORITY: INITIAL ESTIMATES AND ACTUAL CURRENT AND PERMANENT AUTHORITY 1954-1971 (Millions of Dollars)

	Initial Estimate			Actual Authority			
Year	Current	Permanent	Total	Current	Permanent	Total	Change in Total Auth.
1954	$ 1	$ 707	$ 708	$ 35	845	$ 880	$ 172
5	0	608	608	53	908	961	353
6	1	1,108	1,109	109	2,297	2,406	1,297
7	898	273	1,171	2	339	341	- 830
8	251	1,046	1,297	37	496	533	- 764
9	201	64	265	11	349	360	95
60	346	49	395	14	746	760	365
1	0	437	437	2,146	658	2,804	2,367
2	0	340	340	0	700	700	360
3	86	268	354	1,000	300	1,300	946
4	50	500	550	200	1,000	1,200	650
5	400	100	500	1,200	400	1,600	1,100
6	100	500	600	200	1,400	1,600	1,000
7	1,300	5,300	6,600	5,110	2,952	8,062	1,462
8	1,100	8,100	9,200	320	8,206	8,526	- 674
9	1,933	5,989	7,922	3,088	7,964	11,052	3,130
70	435	7,573	8,008	1,461	7,787	9,248	1,240
1	9,604	5,760	15,364	10,199	1,630	11,829	- 3,535

SOURCES: U.S., President, Bureau of Budget and Office of Management and Budget, U.S. Budget for Fiscal Years 1954 to 1971. Administrative budget figures used for years 1954 through 1966, the unified budget, thereafter.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 44

AUTHORITY TO SPEND FROM DEBT RECEIPTS OR "BORROWING" AUTHORITY - INITIAL ESTIMATE AND ACTUAL CURRENT AND PERMANENT AUTHORITY 1954-1971

(Millions of Dollars)

Year	Initial Estimate			Actual Authority			Change in Total Auth.
	Current	Permanent	Total	Current	Permanent	Total	
1954	$ 654	$ 296	$ 950	$ 3,331	$ 280	$ 3,611	$ 2,661
5	2,135	18,910	21,045	3,022	25	3,047	- 17,998
6	512	26	538	2,842	19,563	22,405	22,352
7	643	122	765	3,003	190	3,193	2,428
8	1,349	18,550	19,899	5,674	50	5,724	- 14,175
9	796	4	800	5,181	188	5,369	4,569
60	392	150	542	1,616	185	1,801	1,259
1	538	8	546	2,878	295	3,173	2,627
2	793	211	1,004	1,100	700	1,800	796
3	464	684	1,148	500	700	1,200	52
4	400	500	900	500	700	1,200	300
5	50	500	550	600	500	1,100	550
6	50	100	150	100	900	1,000	850
7	- 400	1,000	600	7,742	1,264	9,006	8,406
8	100	1,100	1,200	7,400	2,399	9,799	8,599
9	2,552	2,133	4,685	725	1,211	1,936	- 2,749
70	470	508	978	5,751	501	6,252	5,274
1	486	562	1,048	14,852	33	14,985	13,937

SOURCES: U. S., President, Bureau of Budget, Office of Management and Budget, U. S. Budget for Fiscal Years 1954 through 1971. Administrative budget figures used through 1966, and the unified budget figures, thereafter.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

since 22 January 1932 through 30 June 1971, such authorizations showed total increases through other Congressional Committees of $114.8 billion and total decreases of $32.2 billion as compared to those through appropriations committees of $15.7 billion increase and $4.4 billion decreases.[804] Certainly, the comparison of these figures accentuates the substantial portion of budget authority which is beyond the annual "control" of the legislature over the years.

Over the period from 1932 to 1971 described by the U.S. Department of Treasury,[805] the largest sums authorized were to the Commodity Credit Corporation totaling 14.5 billion dollars, to special assistance functions of the Department of Housing and Urban Development of 7.7 billion dollars, to the postal fund of the Post Office Department of 10 billion dollars and to the Export-Import Bank of 7 billion dollars. The table lists these sums cumulatively because most authority to borrow from the Treasury is indefinite authority or without fiscal year limitation. Nevertheless, the maximum amount of borrowings outstanding at any one time is limited by the legislation ordinarily. When the borrowings take place, they are generally credited by the Treasury to a revolving fund account for the borrowing agency. Repayments of these borrowings then reduce the agency's operating fund and restore the authorization for additional borrowings.[806]

In certain cases where borrowing provisions are contained in annual departmental appropriation acts and the borrowing activity of agencies is reflected annually in the fiscal year accounts, repayments

---

[804] Ibid., Table 7, pp. 600-606.

[805] Ibid.

[806] Ibid., p. 589.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

by agencies do not restore borrowing authorizations. Then additional authority to borrow must be provided by new legislation. In the event that borrowings result in losses or are made from programs which are non-revenue producing, Congress has authorized cancellation of the notes or other securities held by the Secretary of the Treasury. However, there have been no cancellations made since fiscal year 1957.[807]

Each of these special conditions for borrowing authority affect budget totals and/or budget balances in the respective accounts differently. Furthermore, the cumulative accounting aspect of the treatment in many cases makes annual assessments more complicated.

Political Control and Governmental Credit Activities

The difficulty in tracing the borrowing activities of the Federal Government and the inconsistencies in their treatment are matched only by their counterpart, the credit activities of the Federal Government. At the time of the President's Commission on Budget Concepts in 1967, the budgetary system "had a hodge-podge of the inconsistencies" ranging from the manner of handling the credit activity to ignoring the differential impact on budget outlays. In the case of the revolving funds, for example, outlays born from loans made were reduced by offsetting income from loan repayments, interest received, etc. while in the non-revolving funds, loans made increased outlays and loan repayments increased receipts. Once the special position of the revolving funds was recognized whereby sufficient offsetting income could actually reduce outlays and, thus deficits, it was not difficult to picture how the idea of "packaging" and selling loans or "certificates of participation"

[807] Ibid., Table 5, pp. 597-598.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

developed.[808]

With the introduction of the unified budget in fiscal year 1969 and its adoption of most of the rules set down by the Commission, it appeared that the credit activities of the Government would be subject to more consistency of treatment. However, the rules may have indirectly encouraged the proliferation of off-budget agencies. Some of the new rules provided for the inclusion in the budget of (1) all federally chartered enterprises with some governmental participation, (2) a separate loan account for governmental credit programs, and (3) loan repayments as offsets on outlays except for sales of "certificates of participation" which should be treated as financing. These rules encouraged the exclusion of the Federal Home Loan Banks and the Federal Land Banks which were privately owned and the exclusion of the Export-Import Bank which was federally owned. It encouraged, also, an acceleration in the conversion of certain institutions to private ownership, such as the Federal National Mortgage Association.[809] Other agencies followed the first move "off-budget"[810] though the Export-Import Bank has since returned to the budget on 1 October 1976.

In France, there were occasions for "debudgetization" also.[811] However, besides their use to reduce budget totals and/or deficits, there is an additional purpose that may be of some significance in the U.S. experience. Debudgetization may be an expression of the will of the

---

[808] U.S. President, Office of Management and Budget, The Federal Financing Bank and the Budget, by Robert W. Kilpatrick and James V.Cuny, Technical Staff Paper BRD/FAB 76-1 (26 Jan. 1976), p. 9.

[809] Ibid., pp. 9-11.

[810] See above, Chapter 7.

[811] Ibid.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

State to disengage itself from economic activity in order to permit the development of private initiative. Nevertheless, claimed one French writer, the practice makes budget policy become somewhat uncertain even though the minister seeks to dissipate this by loyally adhering to stabilization policies. In the end, according to Jean-Pierre Duprat, debudgetization risks the loss of ways of efficient correction and sacrifices future equilibrium to present management.[812]

Another serious ailment in accounting procedures covering loans was answered by a French Interministerial Committee, after studying the public reports of the Court of Accounts. The Committee was particularly concerned with the impossibility of either the central accounting agency of the Treasury or the Court of Accounts being able to exercise efficient control over loan repayments when the imprecision of the procedues faulted the significance of any findings. Among the objections made were the absence of following through the loan procedure until maturity, the insufficiency of links between the central account agency of the Treasury on one side and the Treasury Management and its legal agency on the other side and, finally, the difficulties of imputing the different loans concerned to the actual repayments executed by the intermediary establishments. More specifically, the Committee questioned the significance of the balance shown in the F.D.E.S. loan account prior to 1968. F.D.E.S. or Funds of Economic and Social Development is a special account of the Treasury whose main function is to grant loans to public enterprises and local collectivities for investment purposes.[813] Now, the French Inter-

---

[812] Jean-Pierre Duprat, "Le debudgetisation" Révue de science financière N° 1 (junv-mars. 1972): 123.

[813] Deruel, pp. 87-87.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

national Committee was pleased to report adoption of a new accounting system for F.D.E.S. since 1968 which would improve matters. In particular, the account called opérations à ventiler, claimed the Committee, will make the balance in the prêts du F.D.E.S. significant by including not only those accounts to be recovered but, including them according to their varied maturities. Nevertheless, it may take some time, explained the Committee, before the operation of "airing" within this subaccount will be accomplished.[814]

Political Control, Administrative Control and Budgetary Balances

All of these manipulations of accounts on both sides of the Atlantic make considerable difference in the final statement of the public sector's budget totals and budget balances. As a budget deficit, particularly, is a primary concern of both legislatures, further analysis of them as a problem for political control as opposed to administrative control follows.[815]

Abstracting from their absolute or relative size or even their annual or cumulative growth for the moment, public sector deficits, in name, have been associated in various discussions with the allocation, distribution, stabilization and growth functions of the whole economy. For example, Richard Musgrave has contributed to the case for the use of loan finance for investment projects whose benefits are strewn forward in time, on the grounds of improving allocation.[816] On the other hand,

---

[814] France, President, Rapport de la Commission Interministerielle chargée d'examiner les suites à donner au Rapport public de la Cour des Comptes, Arrête interministeriel du 1er sept. 1969,(Paris, 1970), Imprimerie Nationale, p. 29-30.

[815] See above, Chapter 6.

[816] Musgrave, Chapter 1.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

deficits have been accused of contributing to inflation and, thus, favoring such economic groups as profit receivers and debtors at the expense of savers and those on fixed income. Moreover, deficits have been considered as the modern public sector approach to combatting less than full employment situations in the short run and, thereby, encouraging economic growth in the long run because the gap between actual and potential GNP is accordingly closed.[817]

The substance of the arguments for and against these propositions will not be dealt with here. We are concerned, rather with another common problem of "administrative" and "political control" as it has developed in the framework of the budget and the budgetary process. It is necessary, however, to be aware of these associations in order to fully appreciate the development of the concept of "deficit" and its financing, as a problem in real and attitudinal terms. The attitudinal terms appear to have moved one economist, for example, to make "a crude test of the relationship between the size of budget deficits and the rate of economic growth" and to scatter the cumulative budget balance as a percentage of GNP "against the rate of inflation during 1950-60" for six countries.[818] These terms moved still other economists to investigate the propositions that (1) "projected Federal deficits will have a deleterious effect on private capital expenditures for some time to come" and, (2) to consider

---

[817]U.S. Congress, House, Comm. on Education and Labor, "Statement of Leon H. Keyserling, President, Conference on Economic Progress" in Equal Opportunity and Full Employment, pp. 11-64. Hearings before the Subcomm. on Equal Opportunities in H.R. 50, Part I (Wash. D.C.: Gov't Pr. Off., 25 Feb. 1975), p. 16.

[818]Michael E. Levy, Fiscal Policy, Cycles & Growth, The Conference Board, Studies In Business Economics No. 81 (New York: NICB, 1963), pp. 50-51.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

"crowding out" as viewed by the Keynesians versus the monetarists.[819]

Empirically speaking, the size of deficits until 1971 in both countries reveal more of a downward pattern than anything else if one views that size either as a proportion of budgetary outlays or as a proportion of gross private domestic product.[820] In fact, one American economist observed that, as early in our study as during the period of 1931 to 1940 that "In four of the ten years, less than half of expenditures were covered by receipts, and in four additional years the deficit amounted to over one fourth of expenditures.[821] The information agrees with that contained in our Tables 10 and 11. Notice, however, that French deficits as a proportion of outlays were substantially smaller than those of the U.S. during the period though they did reach huge proportions with the advent of World War II, rising to 57.8% in 1939 and to 76.1% in 1940. Nonetheless, in the 1931-1938 period, the French deficit was never more than one third of the budget. Checking the last ten years of the study on the other hand, in Table 12, the budget balance as a proportion of outlays reached its peak in the U.S. in 1968 at 14.1 percent, and, in France, in 1962, at 9.1 percent.

Examining the concept of deficit from another point of view which has given rise to congressional concern over "control" of the budget is that implied by the Joint Study Committee on Budget Control when they indicate that "since 1920, the budget of the Federal Government has been in

---

[819]Keith M. Carlson, & Roger W. Spencer, "Crowding Out and Its Critics," Federal Reserve Bank of St. Louis 'Review', vol. 57, No. 12. (St. Louis, Dec. 1975): 2-17.

[820]See above, Tables 10 through 14.

[821]Lewis H. Kimmel, pp. 319-320.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

a deficit position 37 times" on the basis of the administrative or Federal funds budget. However, "In 32 of these years, the budgets were submitted to Congress with a deficit." In other words, the deficits were the design of the Executive Branch, alone. In fact, the Joint Study Committee expressly believes that it was the failure of Congress to undertake budgetary decisions on an overall basis that contributed to these deficits and their increasing size. "The fact that no legislative committee has the responsibility to decide whether total outlays are appropriate in view of the current situation appears to be responsible for much of the problem.[822]

Nevertheless, the claim is made by the Committee that Congress has succeeded in each year of the last twenty years or through the 92nd Congress, in providing less money through appropriation bills than was requested by the Executive Branch. There were, of course, other spending increases which did occur other than through appropriations bills, which the Committee recognizes, but they are not tabulated in the report. We include here Table 45, Comparative Data on Budgetary Balances for France and the U.S. from 1954 through 1971 which compares the initial estimates of the Executive Branch with the estimates made in the following year and with the actual balances.

In the eighteen years surveyed in the table, Congress, using the supplementary estimate as an expression of their decision, increased the proposed deficit four times, reduced the proposed surplus twice or changed a proposed surplus into a deficit six times. Thus, in the six years remaining, Congress increased a proposed surplus twice, reduced a proposed deficit twice and changed a proposed deficit into a surplus twice.

---

[822]U.S. Joint Study Comm. Recommendations, (18 Apr. 1973), pp. 7-8.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 45

COMPARATIVE DATA ON BUDGETARY BALANCES: INITIAL ESTIMATE, SUPPLEMENTARY ESTIMATE AND ACTUAL BALANCE IN THE UNITED STATES AND FRANCE

1954-1971 (Money Amounts in Millions of Dollars or Francs)

	UNITED STATES			FRANCE		
	Estimate			Estimate		
Year	Initial	Supplementary	Actual	Initial	Supplementary	Actual
1954	-$ 9,922	-$ 3,274	-$ 3,117	- 6,647f	- 7,080f	- 6,640f
5	- 2,928	- 4,504	- 4,180	- 8,159	- 8,182	- 6,620
6	- 2,408	230	1,626	- 10,125	- 9,924	- 10,040
7	435	1,728	1,596	- 10,488	- 9,937	- 11,680
8	1,813	- 388	- 2,819	- 5,995	- 6,285	- 6,070
9	466	- 12,871	- 12,427	- 5,870	- 7,170	- 6,550
60	70	217	1,224	- 6,119	- 6,857	- 4,679
1	4,184	79	- 3,856	- 6,857	- 7,032	- 4,842
2	1,468	- 6,975	- 6,378	- 7,060	- 7,065	- 5,959
3	463	- 8,811	- 6,266	- 6,968	- 6,215	- 6,581
4	- 11,902	- 10,005	- 8,225	- 4,734	- 855	- 531
5	- 4,900	- 6,281	- 3,435	12	- 975	365
6	- 5,287	- 6,428	- 2,251	6	- 3,316	- 4,635
7	1,871	- 5,716	- 8,823	3	- 7,209	- 6,544
8	- 4,503	- 19,805	- 25,187	- 1,941	- 13,976	- 11,525
9	- 7,954	2,391	3,236	- 6,354	n.a.	- 1,480
70	3,414	1,501	- 2,845	5	n.a.	565
1	1,331	- 18,562	- 23,033	2	n.a.	- 1,753

SOURCES: U.S. President, Bureau of Budget and Office of Management and Budget, U.S. Budget for Fiscal Years 1954-1973. Figures of administrative budget used through 1966, and unified budget, thereafter.

France, Ministère de l'Économie et des Finances, "Quelques repéres sur l'évolution du budget de l'état de 1954 à 1969", Problemes Économiques, No. 1.136 (9 Oct. 1969): 3-6, and Cour des Comptes, Rapport au Président de la république suivi les reponses des administrations, J.O. 1973.

NOTES: Figures in this table differ slightly from those of Table 40 because U.S. figures here are from the original budgets in closer concert with the time span of the French ministry release.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Therefore, in the overall view, the Congress appears to have contributed more to deficits than the Executive Branch though, indeed, it may be changes in economic conditions among other things which changed the posture of the budgetary balance a full year later.

Even more impressive than comparing the contribution of each branch to the number of deficits is comparing the contribution of each branch to the volume of deficits. For the period as a whole, the volume of cumulative deficits recommended by the legislature was more than twice as high as that recommended by the Executive Branch. The Executive Branch recommended deficits in eight years which sum to $49,804 millions. The Legislative Branch recommended deficits in twelve years which sum to $103,620 millions. To complete the picture, the actual outcome left the United States with fourteen years of deficits during the period for a combined total of deficits of $112,842 millions.

One cannot compare the two estimate columns for France as indicative of legislative versus executive power because of the severe restrictions on parlimentary changes as noted earlier in this chapter. Thus, it is not surprising that there should be less variation in both the sign and the size of the changes on average, due to both forecasting and technical errors.[823] Nor is it surprising that the differences between the initial and actual columns for budgetary balances for the two countries should be larger for the U.S. than they are for France for the same reason. However, it is also true that French balances took a decided turn to a smaller proportion of gross private domestic product after 1957 and have not returned to their previous level in the remaining thirteen years of Table 46 on the next page.

---

[823] See discussion above, Chapter 10.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 46

COMPARATIVE DATA ON BUDGETARY BALANCES: INITIAL, SUPPLEMENTARY AND ACTUAL BALANCE AS PROPORTION OF GROSS PRIVATE DOMESTIC PRODUCT IN THE UNITED STATES AND FRANCE 1954-1971

	UNITED STATES			FRANCE		
	Estimate			Estimate		
Year	Initial	Supplementary	Actual	Initial	Supplementary	Actual
1954	2.7	0.9	0.9	4.5	4.8	4.5
5	0.7	1.1	1.1	5.1	5.2	4.2
6	0.6	0.1*	0.4*	5.8	5.7	5.8
7	0.1*	0.4*	0.4*	5.4	5.1	6.0
8	0.5*	0.1	0.7	2.7	2.8	2.7
9	0.1*	3.0	2.9	2.4	2.9	2.7
60	0*	0*	0.3*	2.3	2.5	1.7
1	0.9*	0*	0.9	2.3	2.4	1.6
2	0.3*	1.4	1.3	2.1	2.1	1.8
3	0.1*	1.8	1.2	1.9	1.7	1.8
4	2.2	1.9	1.5	1.2	0.2	0.1
5	0.9	1.1	0.6	0*	0.2	0.1*
6	0.9	1.1	0.4	0*	0.7	1.0
7	0.3*	0.9	1.4	0*	1.4	1.3
8	0.7	3.1	3.9	0.3	2.5	2.1
9	1.2	0.4*	0.5*	1.0	n.a.	0.2
70	0.5*	0.2*	0.4	0*	n.a.	0*
1	0.2*	2.7	3.4	0*	n.a.	0.2

SOURCES: See above, Tables 1 and 45.

*Surplus.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Theoretical Aspects of Financing Budget Deficits

One final problem concerned with deficits and the idea of "control" of the budget is reflected in several ways in the following remarks which express public concern with the Budget Balance:

> ... as the United States Treasury elbows its way into the capital markets to finance the Federal deficit, private borrowers will be crowded out. In the process, it is argued, interest rates will soar, private capital formation will decline, economic growth will be choked off and any recovery from the recession may well be aborted. Furthermore, the relative size and influence of the private sector will shrink as the Government grabs off a larger and larger share of the nation's stagnating output.[824]

Another statement:

> ...excessive deficits in public accounts are undesirable. Their ultimate effect is to transfer investment funds into consumption and thus reduce the productivity of the nation. This is where the crux of the deficit problem lies - not in the gap.[825]

Another statement:

> ...The Treasury, since the beginning of the year has already raised, or announced plans for raising about $26.5 billion to finance the suddenly swollen Federal budget deficits. It has been going to the market for about $800 million a week by increasing the size of its regular issues of Treasury bills, with no more fanfare than routine press releases.[826]

Each of these statements, either explicitly or implicitly is drawing attention to the possible economic impact of deficits through monetary policy rather than fiscal policy implications alone.

---

[824]Ronald A. Krieger, "The Budget Deficit: How Dangerous?" New York Times, sec. 3, (13 Apr. 1975): 1.

[825]Gabriel T. Kerekes, "A Failure to Equate" included in "Letters on Deficit Financing" Wall Street Journal (2 Apr. 1975): 12.

[826]Edwin L. Dale, Jr., "Financier for the U.S. Debt: Ralph Forbes Arrives in Very Touchy Times" New York Times, sec. 3, (20 Apr. 1975): F7.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Each statement inherently contains special assumptions with respect to a whole list of economic variables extending from where the economy obtains the funds to finance the deficit to the practical impotency of federal reserve policies. In fact, the major means of financing deficits are by printing new money and by borrowing from the central bank, the commercial banks or the nonbanking public. Then, the various claims against the Federal Government may take the form of transferable demand obligations, marketable short term securities, marketable long term securities or nonmarketable securities. But whichever form the financing takes, the structure of claims in the economy is affected and, hence, net private wealth and its composition.[827]

Given this generalized outcome of the budget deficit, we can make further predictions concerning the state of the economy only on the basis of more assumptions about the direction and magnitude of income and substitution effects, wealth and claims effects, some of which Richard Musgrave, for one has described.[828]

According to James Tobin, though, the monetary effect of an increase in the public debt is unambiguously expansionary on the demand for capital. Only the magnitude of the effect is in question, which may range from strongest to weakest according to whether the increment of debt is of the demand, short term, or long term varieties.[829]

According to Challis Hall, on the other hand, "The risk aversion

---

[827]James Tobin, "An Essay on Principles of Debt Management" in Fiscal and Debt Management Policies, ed. by Commission on Money and Credit (Englewood Cliffs: Prentice-Hall, 1963), repr. in Monetary Theory and Policy, pp. 154-163 ed. by R.A. Ward (Scranton: International Textbook Co., 1966), pp. 144-160.

[828]Musgrave, Chapter 22.

[829]Tobin, p. 162.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

approach to asset preferences yields no uniform conclusions about the impact of debt finance on the desire to hold capital goods."[830] Changing the quantity of money relative to debt, however, is clearly favorable to investment under the same approach. This conclusion would be wrong nevertheless, claims Hall, because financing techniques modify the other social objectives which can be attained with fiscal policy. For example, if more money is used than debt to finance a deficit than the Government deficit must be smaller and the overall level of net withdrawals and Government expenditures must be larger, "if the same growth rate is to be achieved with stability. In other words, monetizing the deficit is inconsistent with maintaining simultaneously a lower Government budget, a given saving ratio, and stability."[831]

The differences of opinion are explained, in part, by the observations of Blinder and Solow who begin with a somewhat different approach from Hall above. They claim that an analysis of the effectiveness of fiscal and monetary policy can only be complete when it includes "both the comparative-static multiplier for bond-financed or money financed government spending and the stability of the process touched off by an unbalanced Government budget."[832] With respect to the first effect, the idea of "crowding out" is associated. Monetarists claim that the significant wealth effects which occur as a result of bond financed Government spending offset the expansionary effects of fiscal policy. As the IS curve

---

[830] Challis A. Hall, Jr., Fiscal Policy for Stable Growth, A Study in Dynamic Macroeconomics, (New York: Holt, Rinehart and Winston, 1960), p. 273.

[831] Ibid., p. 274.

[832] A.S. Blinder & R.M. Solow, "Does Fiscal Policy Matter?" Journal of Political Economics, vol. 2, no. 4, (Nov. 1973): 336.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

moves to the right because of Government deficit spending, the LM curve, on the second round moves to the left as the increased household wealth occasioned by the new bond issue means "increased demands for money (and bonds) at any level of income and interest rates." There is no empirical evidence up to the time of the article about the size of the wealth effects as opposed to the fiscal effects on the ultimate level of national income. Nevertheless, this is a point of view opposed to that which "has always been a central tenet of Keynesian macroeconomics that bond-financed Government spending has a net expansionary impact on the level of economic activity.[833]

Still another point of view with some empirical evidence to support it attempts to illuminate the study of deficits and their financing through an analysis of the distinction between "active" and "passive" elements in the budget. According to Keith Carlson,[834] "active" elements refer to changes in expenditures and receipts which result from current legislation. "Passive" elements are the result of past legislation and, hence, refer to automatic changes in expenditures and receipts which reflect variations in economic activity. Carlson claims that the Federal budget deficit (n.i.a. basis) was averaging $67 billion annually from early 1975 to October 1976, yet the reason that the deficit did not cause "great harm for either financial markets or the economy as a whole" is because about two thirds of it can be attributed to relative weakness in economic activity or the "passive" element suggested above. Knowledge of whether the deficit is passive or active, it seems, reveals information

---

[833] Ibid., pp. 322-323.

[834] Keith M. Carlson, "Large Federal Budget Deficits: Perspectives and Prospects" FRB of St. Louis Review, vol. 58, no. 10 (Oct. 1976): 6.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

about the rate at which it is likely to be monetized. Carlson claims monetary expansion was moderate because of the passive nature of a major portion of the deficit. This was true because Government demand for funds simply replaced the difference between the old and the now reduced demands of the private sector. With interest rates relatively unchanged in this case, economic stabilization goals of full employment and price stability are possible. The "active" part of the deficit, however, does still pose an inflationary threat as does the possible long run effect of "growing Government" on the long-run productivity of the private sector. To the extent the Government grows, even in the absence of accomodating monetary expansion, greater inflationary potential could be credited via the effect on aggregate supply.[835]

Practical Aspects of Financing Budget Deficits

The question of the effect of financing the budget imbalance on the level of economic activity in the short and the long run has been difficult to assess surely, in part, because there has been no visible attempt to coordinate and tabulate Treasury and Reserve System purchases and sales of U.S. securities by type and maturity in support of either budget or monetary policy objectives. It has been difficult also, to correlate what financing is described in the budget on an annual basis with what happens currently as the Treasury acts to satisfy its day to day needs. In fact, when the President's Commission made its report in 1967, it recognized that the unified budget summary table could not serve all purposes. One alternative tabulation of Federal receipts and expenditures

[835]Carlson, p. 7, footnote 13.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

which the Commission suggested would be required is "to assist the Treasury in the management of its cash balances and in scheduling its debt management activities."[836] Obviously, the deficit or surplus derived from the estimates of the annual outlay and receipts program of the Federal Government for a given fiscal year may have little relationship to the deficit or surplus registered on the books of the Treasury on any given day during that year.

As suggested earlier,[837] the initial annual budgetary balance estimate depends on the outlays and receipts and their classifications within or without the budget as well as the netting and timing procedures utilized. The difference between the initial and actual annual budgetary balance depends on congressional disposition of the former plus any forecasting errors, execution errors (intentional or unintentional) and changes in fiscal policy measures within the given framework. But, neither of these concepts will necessarily bear any relationship to the day-to-day changes in the Treasury's balances. These would be traced rather to the initial Treasury cash balance, the differences between the rate of outlays and the rate of receipts from taxes and other revenues, intergovernmental and international net liquidity flows and so forth. It has been shown that, in France, there has been a more concerted effort to align the temporal point of view with the more spatial one.[838]

In the United States, the President's Commission recognized the importance of the relationship between budget totals and the Treasury's financing needs but provided little additional specification other than "The budget document should present, in a prominent place, a 'means of

---

[836] U.S. President, Report of the President's Commission, P. 22.

[837] See above, Chapter 10.

[838] Ibid.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

financing' statement explaining the major ways in which a budget deficit or a budget surplus is used."[839] It indicated, in addition, that the budget deficit of the U.S. Government has been financed almost entirely by borrowing, even though, at the same time, the Commission points to years in which Treasury cash balances or other means of financing played important roles. It noted, also that should the budget become the accrual type which the Commission recommends, then such things as "taxes receivable" may become an important new financing item. But outside of suggesting that the economic significance of the means of financing is at least as important as distinguishing between ordinary governmental purchases of goods and services and transfer payments; that there should be a financial statement revealing the year-to-year change in Federal securities held by the public as among "(1) Federal Reserve Banks, (2) commercial banks, and (3) nonbank investors," no decision rules are offered for the final selection. The Commission explains that, "In making its recommendation that a breakdown be prepared for past years only, the Commission recognizes that it is not presently feasible for the budget to carry portfolio forecasts for Federal Reserve Banks, commercial banks, or nonbank investors for future years."[840]

The reasoning behind this statement becomes clearer if one investigates the nature of Treasury debt and its ownership. According to Tilford Gaines, U.S. Government securities are, first of all, subject to the same supply and demand forces as other securities in the credit markets and, secondly, the Treasury has no control over anyone's holdings of U.S. Government securities as this is regulated by the central bank

---

[839] U.S. President, Report of the President's Commission, p. 56.

[840] Ibid., pp. 58-59.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

credit policy.[841] Therefore, presumably, one cannot predict who the future debt holders will be.

Gaines suggests, in addition, that "the key objective of post World War II debt management -- imposed by the need to refund rather than repay, by the very size of the debt relative to other economic magnitudes, by its role in the financial economy, and by the unavoidable nature of Treasury-central bank relationships -- is orderliness."[842]

Thus, Gaines rejects the frequently expressed objectives for Treasury debt management of (1) avoiding or reducing debt monetization or, (2) lengthening the maturity of the debt. He argues that lengthening the maturity of the debt is not or should not be an objective in itself. It is a means to achieve an objective. This is because "changes in the maturity of the public debt affect the liquidity structure of financial assets." Depending, therefore, on the posture of economic policy in the face of inflationary or deflationary pressures, the Treasury would seek to lengthen or shorten the debt. As for the avoidance of debt monetization, the problem concerns bank versus non bank ownership of Government securities which is beyond the control of the Treasury officials. In conclusion, in the presence of "an effective central bank and freely functioning securities markets neither of these is, as usually stated, a proper or meaningful objective of debt management."[843]

In contrast to Tilford Gaines' expressed 'key objective' of 'orderliness' in Treasury debt management, the Musgraves have suggested, that the

---

[841] Tilford C. Gaines, Techniques of Treasury Debt Management, (New York: A Joint Publication of the Graduate School of Business, Columbia University, & the Free Press of Glencoe, 1962), p. 251.

[842] Ibid., p. 298.

[843] Ibid., pp. 249 and 252.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

policy objective of debt management is that of buying illiquidity at the cheapest cost.[844] However, as far as stabilization policy is concerned, they admit that "much will depend on the size of the money stock. The effect on liquidity in the private sector of a longer debt combined with a larger money stock may be similar to the effect of a shorter debt with a smaller money supply."[845]

Aside from the differences on the question of the primary goals of debt management, the opinions do appear to agree on the fact that debt management techniques as they relate to financing budget imbalances will influence both present and future states of the economy. Probably, this is at least part of the reason why the Staff Paper, President's Commission on Budget Concepts, entitled "Budget Treatment of Lending and Borrowing"[846] has made the point that a budget statement for the whole Federal sector would include the income and the outgo of the Federal Reserve System and not simply register that portion of the public debt in its coffers. Indeed, in a budget in which the operations of the Federal Reserve and the Treasury appeared, "'borrowing' by the consolidated Federal sector would represent net changes in public debt held outside both the Treasury and the Federal Reserve System." The information thus supplied would prove valuable in analyzing the economic impact of Treasury borrowing operations. After all, "Treasury borrowing from the central bank, is a form of exercise of the monetary powers of central governments, equivalent to seignorage or the printing of new banknotes, and would be a means of financing the budget deficit even if other borrowing were treated as revenue."[847]

---

[844] Musgrave & Musgrave, p. 595. [845] Ibid., p. 596.

[846] Lewis, Budget Concepts, p. 33. [847] Ibid., p. 35.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Some Quantitative Evidence in Financing Budget Balances

In the United States, the size of the public debt appears to be inextricably linked with the size of the budget deficit because borrowing from the public is the primary source of financing a budget imbalance. The confession, however, is not applicable to both nations under study. It is clear from the two tables now introduced, Table 47 and Table 48 that borrowing from the public, at least medium and long term public debt have not been a means of financing the French finance bill imbalance for the five years under consideration here. Even short term debt, Treasury Bills, have not been large enough to offset the obvious reduction in this instrument from 1967 to 1971. Moreover, for the years preceding this table, public debt was not an important way of financing the debt either. Article 15 of the Organic Ordonnance of 1959 specifies that the instrument not be used as a means of payment of a public expenditure unless the disposition is especially provided for in the initial budget. Article 124 of the Decree on Public Accounting of 1962 makes a similar statement.[848]

Nonbank investors, in the United States, have made a large contribution to the financing of the budget imbalance particularly in the years 1968 through 1970. In France, on the other hand, there is not a strong relationship between nonbank investor borrowing and the budget imbalance. Table 47, Comparative Data on Budget Financing in France and the U.S.: 1967-1971, is a further refinement of the means of financing section of an earlier table, Table 2, Chapter 6. The French figures in the upper half of Table 47 are divided into the monetary and non-monetary means of financing as identified by the French Ministry of Economy and

---

[848]Deruel, pp. 44-45.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 47

COMPARATIVE DATA ON BUDGET FINANCING IN FRANCE AND THE U.S.: 1967-1971

FRANCE: (Billions of francs)	1967	1968	1969	1970	1971
Budget balance (exercice)	- 6.41f	-11.41f	- 1.37f	- 0.57f	- 1.75f
Adj. to "gestion"	0.07	1.95	- 2.01	3.12	- 2.14
Balance to be financed	- 6.34f	- 9.46f	- 3.38f	3,69	- 3,89
Monetary financing:					
Bank of France	- 1.56	0.77	- 0.41	- 2.05	- 0.66
Banks	2.24	3.15	0.73	- 1.46	- 4.22
Other	2.23	3.00	1.30	0.70	2.80
Total: Monetary finance	2.91f	6.92f	1.62f	- 2.81f	- 2.08
Nonmonetary financing:					
Public debt	- 0.71	- 2.33	- 1.51	- 2.26	- 2.00
Treasury bills(s.f.)	0.35	1.43	1.46	0.96	1.72
Corres. dep.&other	3.79	3.44	1.81	0.42	6.25
Total: Nonmonetary finance	3.43f	2.54f	1.76f	- 0.88f	5.97f
TOTAL: Budget fin.	6.34f	9.46f	3.38f	- 3.69f	3.89f

UNITED STATES: (Millions of dollars)	1967	1968	1969	1970	1971
Budget balance	-$ 8,823	-$25,187	$ 3,236	-$ 2,845	-$23,033
Borrowing from public:					
Fed. Res. banks	4,549	5,512	1,865	3,619	7,804
Commercial banks	405	5,445	- 8,400	- 2,775	8,227
Nonbank investors	- 1,403	12,138	- 4,611	4,553	3,417
Total: Public borrowing	$ 3,551	$23,095	-$11,146	$ 5,397	$19,448
Other means of financing:					
Cash & mon. assets	4,858	- 1,302	- 2,212	-$ 1,570	0
Seignorage	813	367	233	255	378
Liabilities for					
Checks outstand.	657	2,197	- 443	- 179	2,164
Deposit fund bal.	- 1,056	830	159	157	940

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 47-Continued

UNITED STATES: (Millions of dollars)	1967	1968	1969	1970	1971
Total: Other means of financing	$ 5,272	$ 2,092	-$ 2,263	-$ 1,337	$ 3,482
SUBTOTAL	$ 8,823	$25,187	-$13,409	$ 4,060	$22,930
Adjustments*	0	0	10,173	- 1,215	104
TOTAL: Budget financing	$ 8,823	$25,187	-$ 3,236	$ 2,845	$23,033

SOURCES: France, Ministère de l'Économie et des Finances, "Évolution du budget de l'état de 1947 à 1972", Statistiques et Études Financières, 26 année, numéro spécial (1974):48.

U.S., President, Bureau of Budget and Office of Management and Budget, U.S. Budget for Fiscal Years 1969-1973.

*Includes reclassification of debt of $10,102 million in 1969 and $1,583 millions in 1970, and other adjustments which affect "Other means of financing" including $71 million in 1969, $368 million in 1970, and $104 million in 1971.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 48

PERCENTAGE DISTRIBUTION OF MEANS OF BUDGET FINANCING IN FRANCE AND THE UNITED STATES 1967-1971

FRANCE:	1967	1968	1969	1970	1971
Budget to be financed	100.0	100.0	100.0	100.0	100.0
Monetary financing:					
Bank of France	- 24.6	8.1	- 12.4	55.6	- 17.0
Banks	35.3	33.3	21.6	39.6	-108.5
Other	35.2	31.7	38.5	- 19.0	72.0
Total: Monetary financing	45.9	73.2	47.9	76.2	- 53.5
Nonmonetary financing:					
Public debt	- 11.2	- 24.6	- 44.7	61.2	- 51.4
Treasury bills(s.f.)	5.5	15.1	43.2	- 26.0	44.2
Corres. dep.& other	59.8	36.4	53.6	- 11.4	160.7
Total: Nonmonetary financing	54.1	26.8	52.1	23.8	153.5
TOTAL: Budget fin.	100.0	100.0	100.0	100.0*	100.0

UNITED STATES:	1967	1968	1969	1970	1971
Budget to be financed	100.0	100.0	100.0	100.0	100.0
Borrowing from public:					
Fed. Res. banks	51.6	21.9	- 57.6	127.2	33.9
Commercial banks	4.6	21.6	259.6	- 97.5	35.7
Nonbank investors	15.9	48.2	142.5	160.0	14.8
Total: Public borrowing	40.2	91.7	344.4	189.7	84.4
Other means of financing:					
Cash & mon. assets	55.1	- 5.2	68.4	- 55.2	0
Seignorage	9.2	1.5	- 7.2	9.0	0.2
Liabilities for Checks outstand.	7.4	8.7	13.7	- 6.3	9.4
Dep. fund balances	- 12.0	3.3	- 4.9	5.5	4.1

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 48-Continued

UNITED STATES	1967	1968	1969	1970	1971
Total: Other means of financing	59.8	8.3	69.9	- 47.0	15.1
SUBTOTAL	100.0	100.0	414.4	142.7	99.6
Adjustments			-314.4	- 42.7	0.4
TOTAL: Budget financing	100.0	100.0	100.0*	100.0	100.0

SOURCE: See above, Table 47.

*Surplus.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

and Finance.[849] In the lower half of the table, an attempt is made to use a similar classification system for the means of financing budget imbalances in the United States. Clearly the Federal Reserve System has made a more consistent contribution to financing the budget imbalance over the period than the Bank of France. In fact, Table 48, Percentage Distribution of Means of Budget Financing in France and U.S.: 1967-1971, derived from the same data, reveals that the Federal Reserve System contributed anywhere from one fifth to all the necessary means over the five years while the Bank of France was moving in the contrary direction in three of those years.

The Importance of Financial Considerations Restated

More refined information of this type could enable improved analyses of links between the Federal budget and general economic activity. As the authors of Special Analyses of the Federal Budget for F.Y. 1977 note, borrowing from the public has a significant impact on financial markets and the rest of the economy. Borrowing from the public, however, should be clearly distinguished from borrowing from the Federal Reserve, because they have "markedly different motivation and effect on financial markets than do purchases by other sectors of the public." While the debt held outside the Federal Reserve System affects the interest rates and the size and composition of private assets, Federal Reserve System purchases of debt mainly affect the economy by expanding bank reserves and the money

---

[849] According to Table 34, "Financement du Solde Budgetaire" of the French source for our Table 47, "finançement monétaire" includes "opérations avec le sectaire bancaire," "fonds particuliers" and "fonds des particuliers et des entreprises déposées aux Ccp." "Financement non monétaire" includes "emprunts publics," "bons sur formules" and "correspondants et divers."

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

stock.[850]

The importance, therefore, of who the borrowers are, the type and length of the maturities they purchase as well as the presentation of all monetary and nonmonetary means of financing should not be underestimated as an additional facet for budgetary analysis. The interdependence of monetary and fiscal policies in this aspect of budget study is too narrow to ignore the financial considerations. It is, therefore, most comforting to learn that the Treasury Department and the Advisory Committee on Federal Consolidated Financial Statements is at work on the preparation of an "annual recurring report on the financial condition of the U.S. Government."[851] A prototype for this report was released late 1976 and does contain a "Consolidated Statement of Financial Position, June 30, 1975," including the Federal Reserve. It includes, also, a "U.S. Government Reconciliation Schedule for Accrual Operating Results to the Budget Deficit for the Year Ended June 30, 1975." This statement reveals for one year that the magnitude of the difference between the annual financing needs of the Treasury in terms of its consolidated operations ($152.1 billions) can be more than three times the needs of the Treasury in terms of the reported budget balance ($43.6 billions).[852] The major portion of the difference between the two figures represented accrued "payments for individuals" under social security programs. In France, from similar information available in a budget retrospective covering the years 1947 to

---

[850]U.S. President. Office of Management & Budget, Special Analysis: Budget of U.S. Government F.Y. 1977, Special Analysis C, p. 46.

[851]U.S. Dept. of Treasury, Fiscal Service, Bureau of Governmental Financial Operations, U.S. Government Consolidated Financial Statements: Prototype Report (1976), Statement of Wm. E. Simon, Sec. of Treasury, p. 1.

[852]Ibid., pp. 9 and 10.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

1972, it is clear that such differences are not unusual.[853] Unfortunately, in the U.S. prototype report, there is no discussion of the methods of financing the budget imbalance or the "excess of expenses over revenues per Consolidated Statement of Operations" while there is in the French study.[854] There is, however, a listing by type and by maturity for marketable securities which are included in the Gross Federal Debt outstanding on 30 June 1975 and 30 June 1974. This information is a part of a footnote to the "Consolidated Statement of Financial Position" of the U.S. Government for these years.[855] Clearly, more financial information consistent with the timing and conceptual framework of the budget document would be desirable if the total contributions of the Federal sector to the state of economy (including the feedback effects) is to be evaluated.

---

[853] France, Ministère de l'Economie et des Finances, "Evolution" S.E.F. (1974) Table 33, p. 47.

[854] Ibid., pp. 47-50; U.S. Dept. of Treasury, Prototype Report (1976), p. 10.

[855] Ibid., p. 13. footnote 9.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

CHAPTER 14

CONCLUDING REMARKS ON THE PAST AND FUTURE OF BUDGET-MAKING GIVEN THE CONGRESSIONAL BUDGET AND IMPOUNDMENT CONTROL ACT OF 1974

Overview of Chapter 14

The Congressional Budget and Impoundment Control Act of 1974 represents the widest ranging reform of the Federal budget process since the introduction of that process in 1921. After examining the major provisions of that act and the new congressional timetable, this chapter analyzes the new functions of both the executive and the legislature provided therein. Though the introduction of an initial decision on overall budget totals was immensely important to a formerly fragmentary decision making procedure, there are some drawbacks to the new arrangements. Some of these aspects examined include the time element, the paper work and the treatment of the "backdoor spending" problem. Welcome provisions of the Act, that may well generate further improvements at some future date, are the study of "off-budget" agencies, the requirements of a "tax expenditure" budget and five year budget projections. In closing the chapter, we recommend once more, on the basis of the additional complexity of the budget process, that a formal overall budget review process be initiated.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Major Provisions of the Congressional Budget Act of 1974

The Congressional Budget and Impoundment Control Act of 1974 became fully operative for the first time for fiscal year 1977. Its most important provision includes the adoption of a "budget resolution setting target figures for total appropriations, total spending and appropriate tax and debt levels."[856] Also, it calls for the creation of new House and Senate Committees to analyze options and prepare the budget resolutions required under the Act. In addition, the law provides for changing the Federal fiscal year to October 1 through September 30 from the previous arrangement, July 1 through June 30. Thus, Congress has three months longer for budget review and for reconsidering its budget targets and spending actions. Finally, the Act provides for procedures that will limit backdoor spending programs and will force the President to spend impounded funds in certain circumstances.[857]

The Act followed the procedures basically approved previously by the House and Senate. It provides a Congressional Budget timetable but allows a waiver of its procedural and deadline requirements at several stages. Specifically, section 304 of the Congressional Budget Act provides that:

> At any time after the first concurrent resolution on the budget for a fiscal year has been agreed to pursuant to section 301, and before the end of each fiscal year, the two Houses may adopt a concurrent resolution on the budget which revises the concurrent resolution on the budget for such fiscal year most recently agreed to.[858]

---

[856] Congressional Quarterly Weekly, "Conferees Approve Budget Procedures Reform" CQ Weekly Report, vol. XXXII No. 24, (15 June 1974): 1590-1594.

[857] Ibid., p. 590.

[858] Congressional Budget & Impoundment Control Act of 1974.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

However, the new timetable with respect to the congressional budget process is recorded below as it appears in Section 300 of the Act:

On or before:	Action to be completed:
November 10	President submits current services budget.
15th day after Congress meets.	President submits his budget.
March 15.	Committees and joint committees submit reports to Budget Committees.
April 1	Congressional Budget Office submits report to Budget Committees.
April 15	Budget Committees report first concurrent resolution on the budget to their Houses.
May 15.	Committees report bills and resolutions authorizing new budget authority.
May 15.	Congress completes action on first concurrent resolution on the budget.
7th day after Labor Day	Congress completes action on bills and resolutions providing new budget authority and new spending authority.
September 15.	Congress completes action on second required concurrent resolution on the budget.
September 25.	Congress completes action on reconciliation bill or resolution, or both, implementing second required concurrent resolution.
October 1	Fiscal year begins.

One notes from the timetable above that Congress has actually increased the time span of its coverage by more than the three months delay in the start of the fiscal year. In addition, by requesting the executive branch to submit a current services budget which is defined as "if all programs were carried on during such ensuing fiscal year at the same level as the fiscal year in progress and without policy changes in such programs and activities"[859] by November 10th, it has extended the time span of its consideration of that document to just under eleven months. The French Parliament, on the other hand, has less than three months to complete its examination and vote on the budget bill.

---

[859]Ibid., sec. 605.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

New Functions of the Executive

The effect of the Act on Executive Branch preparation and formulation of the budget remains similar to the discussion in Chapter 8 with the addition of the current services budget and the following provisions. In order for Congress to formulate and adopt its own first budget resolution, the Executive Branch is directed to enumerate separately: (1) estimated total budget outlays and total new budget authority, (2) Estimated budget outlays and new budget authority by major function as well as for contingencies and for undistributed intragovernmental transactions, (3) the amount of the budget imbalance, if any, (4) "the recommended level of Federal revenues and the amount, if any by which the aggregate level of Federal revenues should be increased or decreased by bills and resolutions to be reported by the appropriate Committees,"[860] and (5) estimated appropriate level of the public debt and the recommended change in the statutory limit thereon.

The executive is further instructed to set forth the above in the light of relatively controllable versus uncontrollable programs and comparative figures for the latter with respect to estimated outlays and receipts as opposed to actual outlays and receipts for the last completed fiscal year. The Executive Branch must submit, also the "tax expenditures budget," and any projected changes in it, estimates of expenditures for programs for which funds are appropriated one year in advance, five year projections of all Federal spending and "an allowance for additional estimated expenditures and proposed appropriations for the ensuing fiscal year, and an allowance for unanticipated uncontrollable

---

[860] sec. 301.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

expenditures for the ensuing fiscal year."[861] Finally, the administration must submit requests for authorizing legislation not later than May 15 of the calendar year preceding the year in which such fiscal year begins. In other words, the request must be submitted over fifteen months in advance of the budget year to which it applies.[862] Notwithstanding the importance of the fact that congressional consideration of the budget is now concerned initially with an overall picture rather than the piecemeal division of earlier years, there are a certain number of difficulties associated with the process so far described. Though the delay in the start of the fiscal year affords Congress the additional time which may enable it to complete the appropriations process ahead of time, it also increases the interval between the time the final budget planning is completed by the executive and the start of the new fiscal year. The period of nine months will certainly introduce more uncertainty into the administration's planning and may well reduce the quality of the budget's economic assumptions. The possibility of a presidential veto of the final reconciliation bill or any appropriation bill can conceivably extend the process even further in time than presently envisaged.[863]

The New "Congressional Action" Phase

The second phase of the budget process, which we have called the Legislative Vote, has been retitled in the present U.S. budget document as "Congressional action."[864] Undoubtedly, the new name was adopted to

---

[861] Ibid., sec. 604.

[862] Ibid., sec. 607.

[863] Levy, Smith, et al. The Federal Budget Fiscal 1976, p. 34.

[864] U.S. Budget F.Y. 1977, p. 169.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

emphasize the more active and formative role of the legislature in budget-making. In order to collect, select and evaluate information which will lead to the adoption of the necessary concurrent resolutions for what will be, for all purposes, "a legislative budget," the Congress had to reorganize its interior power structure and initiate a somewhat complex set of procedures. Now, there will be a House Budget Committee, a Senate Budget Committee and a Congressional Budget Office in addition to the Appropriations Committees of each house, the Ways and Means Committee of House and the Finance Committee of the Senate, the Joint Economic Committee, Joint Committee on Internal Revenue Taxation and various other legislative committees concerned with budget-making. It is important that this reorganization is acceptable and effective before the new budgetary process will be. Otherwise, the experience with the Act may be as limited as that with the Omnibus Appropriations bill in 1950 and the Revenue and Expenditure Act of 1968.[865]

In comparison to the French budgetary process, there are a large number of U.S. congressional committees involved in the new procedures. Article 46 of the French Constitution permits only six permanent committees in each house for whatever purpose, though Parliament may designate a temporary committee for a particular bill. The question is how much of the rationale for a limited number of committees in the French system may be attributed to political considerations as opposed to efficiency, economic or other reasons? For the U.S., the question of efficiency is raised not only with respect to the larger number of committees now involved but, also, with respect to the longer period of time for

---

[865] See above, Chapter 1.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

"congressional action." Will the President be able to execute the budget in an efficient manner at the same time that he fulfills congressional intent in what will certainly be, one year later, a changed political, social and economic climate?

Impoundment Provisions

To further reduce executive discretion in the execution process, Congress has institutionalized their own control over the President's right to impound funds. Prior to the act, the President had withheld funds which Congress has appropriated either to achieve more efficient financial administration or for countercyclical economic policy reasons as discussed in Chapters 10 and 12. Now the President must report all such withholding of funds to Congress. Congress has divided the interpretation of withholding funds into two categories: deferral and recission. A deferral is budget authority temporarily withheld from obligation for any reason. The President must report all such deferrals to Congress but he may continue to withhold these funds as long as neither house acts to disapprove the deferral and, as long as he removes the deferral before the end of the fiscal year. If, however, the executive does not elect to spend his funds, or any other funds appropriated before the end of the fiscal year for whatever reason, he must send a special message to Congress to request the recission of the budget authority.[866] Sections 1012 and 1013 of the Act require that, in the message, information as to the amount, the account, the circumstances, the estimates of the fiscal, economic and budgetary impact of the recission and all the facts connected with it be furnished. Then, if the House

[866] secs. 1015-1016.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

and the Senate do not pass the recission bill within forty-five days, the budget authority must be made available for obligation by the President.

Furthermore, in the event that the legislature and/or the Executive Branch fail to follow these instructions, Congress has directed the Comptroller General of the United States to keep constant surveillance over the special messages as to their legality and their probable effects as well as to monitor the entire Executive Branch for cases in which a special message was incorrectly filed or not filed at all.

The effect of the new requirements and overview of executive withholding of funds will be burdensome, certainly, in terms of personnel time and paperwork. In fact, one observer has suggested that reports should not be required concerning routine impoundments for an additional reason. Routine impoundments occur when funds are placed into a reserve for contingencies or savings. The argument against reporting this type of withholding funds is that "Congressional delegation of authority to agency officials should imply some basic level of trust and confidence. Congress should not ask the President and OMB to do a job and then watch every step. It is burdensome not only to OMB but also to agencies, GAO and the committees of Congress."[867]

One final early outcome of the adoption of these procedures has been the aggravation of the "touchiest point" with respect to impoundments. There has been a traditional bias by the OMB against congressional action providing additional sums over and above its own initial proposals.

---

[867]Louis Fisher, "Presidential Budget-Making," prep. for delivery at the 1975 Annual Meeting of the American Political Science Association, San Francisco Hilton Hotel, (San Francisco, Calif., 2-5 Sept. 1975) Copyright, APSA, 1975, pp. 10-11.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

It seems that, frequently, these "congressional add-ons" are singled out for impoundment practices. Thus, the same observer suggests that, in exchange for dropping reports on routine impoundments, the OMB should abandon this prejudice. "The practice is too blatant, too demeaning to Congress, too similar to item-veto authority."[868]

Nonetheless, as the Act stands and assuming the intention was to curb executive discretion in the execution phase, there has been introduced a more rigid framework than formerly. It is surprising, though, that an area potentially as large in terms of executive freedom of action was not mentioned. The executive's freedom in the area of transfers in space and time are not affected by the provisions of the act.[869] Though Title VIII, "Fiscal and Budgetary Information and Controls" could conceivably be interpreted to include relevant information in this area, the slowness in the implementation of the initial act has been noted in Chapter 11. Moreover, there is the suggestion from the fragmentary data available that transfers form a larger proportion of budget outlays in the U.S. than in France where they are subject to public scrutiny.[870]

If, on the other hand, the purpose of congressional budget control is, as Congressional Budget Office Director, Alice Rivlin, suggests "to give the Congress a way of looking at the budget as a whole and making decisions, both on fiscal policy and budgetary priorities,"[871] then

---

[868] Ibid., p. 11.

[869] See above, Chap. 10.

[870] See above, Chap. 10 and Tables 30 and 31.

[871] Congressional Quarterly, "CBO Director Alice Rivlin: No "'Hidden Agenda'..", Economic Affairs," Excerpts from interview with Alice Rivlin conducted by Donald Smith, CQ Weekly Report, vol. XXXIII, No. 36, (6 Sept. 1975): 1924.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

perhaps the new Act is a huge step forward in the right direction. There is still the question, however, of Congressional budget control in the sense of the annuality of the appropriations process and, therefore, the avoidance of "backdoor spending."[872]

"Backdoor Spending"

According to many experts, the new Congressional Budget Act of 1974 has "compromised rather than resolved"[873] the backdoor spending problem. First of all, the Act permits all existing backdoor spending programs to continue to remain outside the annual appropriations process. In addition, it exempts from the acts provision any new spending authority if it is derived from the Social Security Act, all trust funds which receive 90 percent or more of their revenues from earmarked taxes, general revenue sharing as provided by or as amended to the State and Local Assistance Act of 1972, outlays by Federal Government corporations or independent public corporations, insured and guaranteed loans, and outlays from earmarked gifts to the Government.[874]

It is only the newly initiated "spending authority not provided by law on the effective date of this section"[875] and which does not include the exceptions above which is subject to new review procedures by the Appropriations Committees. Hence, the rising shares of borrowing and contract authority as reflected in the increasing proportion of outlays in any given fiscal year derived from prior year budget authority as

---

[872] See above, Chap. 9.

[873] Levy, Smith et al, The Federal Budget 1976, p. 32.

[874] sec. 401 (d). [875] sec. 401 (c).

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

illustrated in Table 17, or the importance of these two types of authority is a component of total budget authority in any given fiscal year as illustrated in Tables 43 and 44 or, finally, the large contribution that mandatory entitlements or "payments for individuals" add to the "relatively uncontrollable under present law" section of Tables 35 through 37 may not be noticeably affected. In addition, the "allowances for supplemental budget authority and uncontrollable outlays"[876] may simply encourage the continuation of present practices.

"Off-Budget Agencies" and Loan Expenditure Problems

There are certain provisions of the Congressional Budget Act, nonetheless, which do present promising improvements in budgetary procedures as, in fact, the introduction of the comprehensive overview of the whole budget does. Two of these, the study of "off-budget agencies" and the requirements of a "tax expenditures budget" may contribute to the better understanding of the proper scope, level and composition of the Federal budget and governmental activities in general within the framework of the United States economy.

In the last chapter, for example, it has been suggested that certain changes in rules for budgetary inclusion have actually occasioned a proliferation in the movement of agencies and programs off-budget. The problem has been a serious one at various points in time in the French budgetary experience.[877] The U.S. Budget for fiscal year 1977

---

[876] Sec. 604.

[877] See above, Chap. 7.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

excludes from coverage within the budget totals the following:[878]

Exchange stabilization fund,
Rural electrification and telephone revolving fund,
Rural Telephone Bank,
Environmental Financing Authority
Board of Governors of the Federal Reserve System,
Housing for the elderly or handicapped fund,
Pension Benefit Guaranty Corporation,
Postal Service fund,
United States Railway Association,
Federal Financing Bank,
Energy Independence Authority (proposed)

If, indeed, budget experts at OMB are correct that a strict interpretation of the Budget Concepts Commission's recommendations would require the transactions of these off-budget Federal agencies to be included in the budget, then their "exclusion reduces the significance of budget totals and the validity of presentations in the budget documents."[879] The contribution of these agencies to the budget financing problem, amounts to slightly more than twenty percent of the total deficit of the proposed 1977 budget including these agencies.[880]

The 9.5 billion dollars which the off-budget agencies add to the total deficit (two thirds of this sum represents the loans of the Federal Financing Bank, alone) is due to the special accounting treatment of extrabudgetary Government entities explained in a Treasury Department Attachment to a Technical Staff Paper of the OMB.[881] According to the Treasury Department Fiscal Service, "Generally, the same accounting rules apply to both budgetary and extrabudgetary accounts." This includes the

---

[878] U.S. Budget F.Y. 1977, p. 173.

[880] Percentage based on U.S. Special Analyses F.Y. 1977, Special Analysis C, p. 48.

[881] U.S., The Federal Financing Bank, Attachment A, p. 1.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

basic distinction between operating type transactions and financing type transactions. Operating type transactions which include purchase of goods and services and loans to the public and interest payments are usually listed as budget receipts and outlays but are not when transacted by extrabudgetary entities. Financing type transactions which include appropriations, borrowings and issuance of capital stock have no effect on budget results whether transacted by budgetary or extrabudgetary entities except in one case. When they involve extrabudgetary entities, transactions concerning distribution of profits and restoration of losses will be treated as operating type transactions and involve both a budget receipt or outlays and a corresponding extrabudgetary outlay or receipt.

However, other than the restoration of losses, "the provision of capital to an extrabudgetary entity will always be treated as a financing-type transaction, without budget effect." In the same way, "capital provided to budgetary accounts by extrabudgetary entities (investments or loans) will also be treated as financing."[882]

The end result of this approach cumulatively over time is exactly the same as if the extrabudgetary entity were in the budget. But, at any one moment in time, the plusses and minuses of asset acquisition and realizations, "which come to zero over time," are eliminated.

The accounting relationship between the extrabudgetary entities and the budget is similar to the relationship of a capital budget to the current budget. The link in the case of the capital budget is depreciation and bad debt losses; the link in the case of the extrabudgetary entities may be in both plus and minus amounts or through net profit or loss.

---

[882]Ibid., p. 2.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

In neither the case of the capital budget nor that of the extrabudgetary entity does the financing of a capital outlay affect the regular budget.[883]

One wonders if these procedures are just another attempt to physically distinguish between the inherent differences of Government's ordinary expenditures and its loan expenditures. If the former division of the regular budget into an expenditure account and a loan account was impractical (?) and these procedures have mushroomed in their place, perhaps the technique of two balances: one above and the other below the line in the French style, is not unreasonable.

Though it is true that budget authority and outlays of the off-budget agencies are excluded from budget totals, not all of their activities are excluded from executive or congressional review. However, the debt of these agencies is not subject to the statutory debt limit though it is a part of the gross Federal debt. If Congress insists on the restrictive public debt limit as a way of congressional control and a way of forcing overall spending reviews by the Executive Branch of the Government[884] then it is hardly more than a superficial attitude. On the other hand, if a more careful investigation of the off-budget agencies is made, it will be found that "Except for the Postal Service and the Pension Benefit Guaranty Corporation, the excluded outlays of both the off-budget Federal agencies and the Government-sponsored enterprises are incurred for carrying out loan programs."[885] Thus it may foster a deeper consideration of the manner and degrees of difference between expenditures, and

---

[883] Ibid.

[884] Lewis, Budget Concepts.., pp. 25-26.

[885] Ibid., p. 13.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

direct, guaranteed, insured or Government-sponsored loans on and off budget. In the fiscal year 1977 budget, the outlays (loans) of the off-budget and Government-sponsored enterprises net of interfund transactions totaled an estimated 25.7 billion dollars.[886]

The problems suggested above are not unrelated to the requirements of a "tax expenditures budget" included in the initial presidential proposals. The Federal Financing Bank, one of the off-budget agencies, was created in December 1973[887]

> "...to coordinate and assist agency borrowing and Government-guaranteed borrowing and to reduce the cost to the Government of some of its borrowing activities. In order to achieve these purposes, the FFB was given the authority to purchase agency debt and Government-guaranteed obligations and, in turn, to finance these transactions by borrowing from the Treasury or the public. The FFB thus serves as a conduit for agency borrowing, and Treasury or FFB securities replace agency securities or Government-guaranteed obligations in the market. The operations of the FFB began in May 1974 and have become substantial. By December 30,1975, its holdings of agency debt and Government-guaranteed obligations totaled $17 billion.[888]

Under the Budget Concepts Commission's principles, most loan guarantee programs in which FFB specializes, should not be included in outlays. However, the FFB purchase of these obligations does, in fact, convert them into direct loans. The question rises, if the FFB is included in the budget then its purchases of guaranteed loans become outlays in that budget and add to the general confusion over growing budget deficits. On the other hand, the existence of this function of the FFB may de detrimental to congressional intent in the first place. If Congress had wanted to make a direct loan, it would have provided for that contingency in the initial legislation. Nevertheless, removing this

---

[886]Ibid., p. 13. [887]U.S., Federal Financing Bank.., p. 1.

[888]Ibid.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

function of the FFB, would mean removing the savings from lower interest rates and the more efficient operations possible with the Bank's purchasing activities instead of those of the market. On the other hand, the existence of this FFB operation may expand existing guarantee programs and encourage the establishment of new ones.[889]

The "Tax Expenditures" Budget

The link between the study of the off-budget agencies and the "tax expenditures budget" may be described in terms of clarification of the treatment of loans and the subsidy elements inherent in almost all loan programs. The present study has drawn attention to the problems of borrowing authority and direct loan outlays in the budget[890] through the period up to 1971 but, in fiscal year 1977, direct loans have been relegated to a memorandum at the end of the budget summary,[891] and borrowing authority is still difficult to trace.[892] The hope of a tax expenditures budget in its fullest sense should be to capture an accounting of all revenue losses due to preferential treatment of individuals or objects attributable to whatever reason in addition to those attributable to the "Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability."[893] Such a goal might force an explicit decision on the difference between specific loan expenditures and outlays whether in terms of recognizing subsidy elements and outright losses ('soft' loans) or in terms of financing long term capital projects

---

[889] Ibid., p. 22. [890] See above, Chaps. 6 and 9.

[891] U.S. Budget F.Y. 1977, p. 311. [892] Ibid., p. 318.

[893] Cong. Budget & Impoundment Control Act of 1974, sec. 3.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

which the private sector may or may not have undertaken anyway.

Unfortunately, the problems associated with the tax expenditures budget, itself, may prove insurmountable for some time to come. As the Budget for Fiscal year 1977 points out, tax expenditures according to their present definition may be viewed as another form of public policy as opposed to credit assistance or budget outlays. Nevertheless, in order to enumerate the sums of this form of public policy, it is necessary to formulate a decision as to what is an income tax structure which yields no tax expenditures and one which does. In other words, the decision must be made as to what would be an exception to the "normal structure" of the individual and corporate income tax. The budget under discussion relied upon those sections of the tax code which specify the structure of progressive rates and accepted them as the normal structure. Furthermore, the budget document indicated that any new change in rate structure, "for whatever reason," becomes a part of the new normal structure.[894] Unfortunately, there are areas of the tax code which are ambiguous; therefore, arbitrary decisions were made and are listed in Special Analysis F. Some of the decisions are not unimportant and draw attention to the political and social aspects of budget-making which have not been examined in this study. This is true, for example, in the case of excluding imputed income from owner-occupied housing and other sources "Because such imputations are difficult to make and are foreign to usual concepts of income."[895]

Actually, since fiscal year 1971, the U.S. Treasury Department has

---

[894] U.S. Special Analyses 1977, Spec. Anal. F. pp. 16-17.

[895] Ibid., p. 120.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

made public, annually, a similar list of tax "subsidies" as it was called at that time. The tax benefits included were those singled out by staff members of the Joint Economic Committee and were not all-inclusive.[896] Some of the benefits on the original list and now not included are: benefits from accelerated depreciation techniques, shortened service guidelines, corporate and individual capital gains treatment; some of those benefits not on the original list and now included are: social security payments, double exemption for over 65 and blindness and the maximum tax of 50 percent on earned income.

Conceptually, the most difficult problems faced by the Treasury Department, who is still responsible for the preparation of these estimates "under existing law," are explained in Special Analysis F.[897] For example, "current law" is interpreted to mean "that the same number of individuals will itemize their deductions as they file returns for 1976 and 1977 as would be the case if the provisions of the Revenue Adjustment Act regarding standard deductions for individuals were annualized." In addition, each estimate is based upon two "major assumptions." "The first is that only the tax provision in question is deleted and all other features of the tax system, including the structure of rates, remain unchanged." ..."The second major assumption used to make the estimates is that taxpayer behavior and general economic conditions remain unchanged in response to the hypothetical change in tax laws." It is clear that neither one of these assumptions is realistic but, perhaps, the attention drawn to the individual tax expenditure

---

[896] U.S. News & World Report, "Where 40 Billions in Tax Subsidies Go." p. 20.

[897] U.S. Special Analyses, 1977, Spec. Anal. F, pp. 122-124.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

under study will result in a clearer view for policy-makers of the quantitative and qualitative outcome of changes in the tax law directed to particular groups of taxpayers. With respect to imputed income items including subsidy elements in loan programs which are not included, one expects that "As the concept is sharpened, additional provisions of the tax law examined, and estimating techniques improved, further changes are bound to be made in the list of tax expenditures"[898] which will include them.

Fiv-Year Budget Projections

Another promising improvement in the U.S. budgetary process is the provision in the Act for five-year budget projections. The new Budget Act is not the first legislation to suggest the inclusion of such items[899] and, in fact, the 1977 Budget document states that "budgets for the last 6 years have emphasized the longer range implications of current decisions by presenting 5-year projections of Federal outlays and receipts."[900] However, these long range projections included in the budget for the four years following the present fiscal year are derived in a completely different fashion from the budget estimates for fiscal year 1977. Though it is fair to label the short-term estimates as forecasts of probable economic conditions, the long-term projections are purely mechanical and are not forecasts but "rather assumptions consistent with moving gradually toward a relatively stable price level and a higher level of employment."[901] In fact, the usefulness of these projections does

---

[898] U.S., Special Analyses 1977, Spec. Anal. F, p. 122.

[899] See above, Chap. 1.

[900] U.S. Budget F.Y. 1977, p. 25.

[901] Ibid., p. 26.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

not appear to be fully appreciated at this time. The projections incorporate the administration's specific decisions on the level and the rate of growth of real GNP, employment and prices. In addition, they incorporate the administration's decisions on the level and growth of existing and new outlay and tax programs. Only, within these limits, therefore, do the estimates reflect the future commitments of the nation's resources. What the estimates do more truly reflect are the major recommendations of the administration in the first place: "the objective of restraining the growth in Federal spending," and the objective of achieving "a balanced budget in 1979."[902]

At least one economist has declared that this is in the nature of the real value of projections. "Pure forecasting should be the main emphasis of a little banana seller on a street corner, trying to figure out how many people will pass his way on a given morning and want some fruit. But we did not forecast the results of World War II; we planned to win. In 1933, we did not forecast how much unemployment there would be in 1938; national policies were adopted to reduce it."[903]

Of course, fundamentally, such statements are part of the case for Government planning. In early 1975, a proposal which would establish an Office of National Economic Planning was offered by a committee headed by the Nobel prize winning economist Wassily Leontief.[904] In early 1976,

---

[902]Ibid., p. 27.

[903]U.S. Congress, "Statement of L.H. Keyserling," p. 17.

[904]Initiative Committee for National Economic Planning, "The Case for Government Planning" The New York Times, sec. 3 (16 Mar. 1975): F14.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

the bill known as the Full Employment and Balanced Growth Act of 1976 was introduced into Congress by Senator Hubert Humphrey and Representative August Hawkins.[905] The Leontief proposal sought to coordinate Government data collection and economic policy decisions. The Humphrey-Hawkins Bill sought to "formulate systematically and comprehensively, long term national goals with existing resources."[906]

Given that we are incorporating five-year projections into the budget, based upon an entirely different set of assumptions from our short term estimates, what will be the method of reconciling the stabilization policies with the long range goals? Germany is one western nation who has attempted to combine such actions when she adopted the Stabilization and Growth Law of 1967. The law requires an overall equilibrium which must not be jeopardized by the policies of the Federal, State or local governments. "The law defines 'economic equilibrium' as a condition in which the goals of price stability, high employment, balance of payments equilibrium, as well as continuous and reasonable economic growth are satisfied simultaneously."[907] It is the responsibility of the Executive Branch to decide on the type and extent of fiscal measures to use if the "optional combination of goals" is not in evidence.

Considering the ample number of specific measures suggested by the law, more than a dozen, it is interesting to learn that fiscal policy

---

[905]U.S. News And World Report, "Highlights of Democrat's Plan for 'Full Employment'" U.S. News and World Report (22 March 1976): 65.

[906]Hubert Humphrey, "National Economic Planning: Pro and Con," New York Times sec. 3 (21 Dec. 1975): F12.

[907]Dieter Duwendag, "The Postwar Economic System in Germany: Creation, Evolution and Reappraisal," trans. by Hans Helbling, Federal Bank of St. Louis Review vol. 57, vo. 10, (Oct. 1975), pp. 18-19. See also, Neumark, pp. 228-238.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

in West Germany was not very popular until that time.[908] According to Jeffrey Sussman, its use as an anticyclical device in the fifties and early sixties was severely limited by the "Basic Law" which stipulated that the budget should be balanced.[909] Perhaps, this information reveals why one observer, Dieter Duwendag, had unhappy recollections of the effects of the 1967 law as can be observed in his remarks which follow. Duwendag claimed that it was intended that the Stabilization Law affect macroeconomic relations only, but the German experience negated the thought in the practice.

> Restrictive policy actions, for example, led to discrimination against small and medium size firms. The reason for this was that because of a lack of diversification such firms were affected more by a cutback of government orders than large corporations. On the other hand, during periods of expansionary fiscal policy, large corporations were able, because of skilled management, to react to changes in tax and depreciation rates much faster than small and medium sized firms.[910]

In essence, the German experience with Government intervention into markets led to more Government intervention into markets through both price and quantity control measures. A "distinguishing feature of the reaction phase of Government was that certain sectors (the market for rental property, and portions of the market for land and energy) were taken out of the free market and subjected to governmental price and/or quantity controls." To some persons, it appeared that "fiscal policy assumed an ad hoc character based on the principle of trial and error." Thus, by

---

[908] Jeffrey Sussman, "An Empirical Analysis of the Policy Response to the Balance of Payments in West Germany: 1958-1971." A dissertation submitted to the Graduate Faculty in Economics, City Univ. of N.Y., 1974, p. 23.

[909] Ibid., p. 97.

[910] Duwendag, p. 19.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

1975, there was evidenced "a counter reaction -- criticism and anxiety concerning increasing state activity and reassessment of the efficiency of a market economy."[911] The same observer of these disappointing events has suggested that Germany, as other western nations, must still resolve the basis for an optimal relationship between the private and public sectors. In his view, it is not that planning should be substituted for the market in order to derive a "thoery of public responsibilities (and expenditures)" but, rather, "that the political decision mechanisms must be combined with those of the market. That is, even political decisions ought to be formulated on the basis of prices."[912]

The wording is unfortunate because it obviously contradicts all notions of public goods' theories. Nevertheless, one suspects that the author is suggesting the road that Charles L. Schultze has indicated, the road through decentralized incentive to harness the use of private resources for public purposes.[913] Duwendag sorely laments both the impossibility of deriving an empirical social welfare function of optimal Government activity and the fact that politicians rely on "normative, and therefore, many times arbitrary, decisions" for the same purpose.[914] Thus, the Schultze solution might be the half way house for which Duwendag is searching.

---

[911] Ibid. [912] Ibid., p. 20.

[913] See above, Chap. 12.

[914] Duwendag, p. 22.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Lack of Overall Review and Evaluation

Closely related to deriving a "theory of public responsibilities" and the question of a reconciliation between short run and long run macroeconomic goals is a third point which is not made explicit in the Congressional Budget Act.

The Congressional Budget Act, amends the Legislative Reorganization Act of 1970 with respect to fiscal and budgetary information and controls. Nevertheless, Congress will have to make up its own mind as to the information it needs before these provisions will be implemented. Furthermore,the new Act refers once more to program review and evaluation of programs to be implemented by the Comptroller General and the standing committees of Congress. Again, Congress will have to make up its own mind as to what criteria justify the evaluation of a program as efficient or effective and how to legislate for it. Most importantly, Congress will need to reflect on its own program for implementation of the Congressional Budget and Impoundment Control Act of 1974. But unfortunately, at the same time that it provided for an overall inspection of budget outlays, receipts, balances and debt for the coming fiscal year, the Act has not provided for an overall inspection of the budget outlays, receipts, balances and debt for the last completed fiscal year as opposed to the initial budget authorization.

Not only would the intrafiscal year inspection be valuable, but the inspection of overall budget totals through time might lead, also, to better informed decision-making. Both of these timely oversights in the short and the long run might, in the initial spirit of the French loi de reglèment, afford Congress an improved system of appraising its own

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

"control" over the budget. Necessarily, the reviews would be greatly facilitated by a more completely standardized and refined budget data series. The budget time series, once derived, then related to prior existing economic conditions and updated as present knowledge advances, might enable Congress to better contribute to the development of the practice as well as the "theory of public responsibilities (and expenditures)." Indeed, the study of such detailed data over time within nations and among nations might lead to a fuller and more satisfying explanation of the role of the public sector within a nation. It might lead, also, to a fuller understanding of the relationships among the world's economies and their respective sectors so that, at some future date, we can better explain why, and learn how to deal with the situations of the last few years. Years in which

> .... the world's economies have moved between extreme economic conditions and have been more subjected to fundamental shocks. In this short period they have gone through a complete economic cycle -- from a period of slow economic growth, through an expansionary boom, to a sudden and major recession.[915]

---

[915]U.S. President, International Economic Report of the President together with the Annual Report of the Council on International Economic Policy, trans. to the Congress March 1975, p. 1.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

PART V

CLOSING REMARKS AND RECOMMENDATIONS

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

CHAPTER 15

FINDINGS: SUMMARY AND CONCLUSIONS

Overview of Chapter 15

In writing this final chapter of the study, the purpose is to summarize the findings and arrive at general conclusions with respect to the budgets and budget processes of France as opposed to the United States during the past several decades. It is evident in reviewing the analyses of previous chapters that there are two primary themes common to both nations which pervade throughout the period: the concern with economy and efficiency and the concern with budgetary control. It is less evident that the source of difficulties in resolving issues underlying these themes has been (1) the lack of a continuing clear definition of their meaning and content, and (2) an adequate yet concise reporting of data relevant to their means and rate of achievement.

Both of these terms, "economy" and/or "efficiency" and "control" are expressed as moving evaluations to emphasize the need for continuous reassessment of the ranking of elements at the base of these concepts. The study has drawn upon several aspects of the theme of "economy" and "efficiency," for example, which relate (a) to the budget, itself, as a statement of the allocation of resources in the public sector and, (b) to the state of the budget, as expressed by the budget balance and its financing as evidence of stabilization efforts.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

With respect to the concern over budgetary controls, administrative, judicial and parliamentary implementation have been considered with special attention to data collection during and after the lapse of the budgetary year as well as over time.

In order to examine the first theme of "economy" and "efficiency" in the budgetary process, its development was traced in the two countries through time. For concluding statements here, certain vital sectors are identified that are associated with these two concerns: organization of the public sector, budget presentation, budget legislation and new procedures, specification of budget goals and concepts, and the budget process in operation. For statements concerning the theme of "control" these sectors are considered, also, with particular stress in the last two areas.

In the remarks which follow, the findings in each of the above areas are indicated and some conclusions in each classification are presented. Then, along with more recent interpretations of the two themes, future directions for them are suggested and those aspects of present procedures which have not adequately resolved essential economic issues are described. At the conclusion of the section on the budget process in operation, six recommendations are listed which appear to be most vital to the improvement of the budgetary process in the United States.

Definitions

First, the development of the terms "economy and efficiency" and "control" in budgeting as discussed herein are briefly outlined. In the early interpretation of the first two terms, "economy and efficiency" which prevailed into the 1950's, the meaning concentrated on actual money savings from prior estimates of the cost of governmental operations and

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

services. More recently, the terms have tended to be confined to the sense of Pareto optimality, whereby such a condition is said to prevail if production and distribution cannot be rearranged so as to raise the utility of one individual without decreasing the utility of another. In this sense, "efficiency" relates specifically to the state of an ideal allocation of resources. For the study of public finance and, in particular, the study of the budgetary process, this interpretation is severely limited in its applicability. The term, "efficiency" would be more useful if it could be related to the other objectives of the public sector such as those dealing with the distribution of income, stabilization and economic growth.

In the oldest version of the term, "control" as applied to the budget, it was associated with the idea of authorization. Since that time, "control" has had a multiplicity of interpretations. Perhaps, one of the most useful of these is the one that is associated with the concept of "controllability" in the U.S. budget document. "Controllability" is the ability of the Executive or the Legislative Branch under existing law to control or change outlays during a given fiscal year. As the terms, "economy," "efficiency" and "control" are used in the comments which follow, the foregoing definitions apply.

Organization of the Public Sector

In the basic design of governmental ownership and influence in the economies of France and the United States, there are several important differences relating to the responsibilities and the relative powers of the various branches of the Government, the role of the central bank and the Treasury, and the significance and contributions of subsidiary

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

institutions. Each of these differences has profound effects upon the nature and extent of "economy and efficiency" and "control" in budgeting.

Responsibilities and Relative Powers of the Various Branches of Government

One of the most important differences between the French and the U.S. republics is the relationship of the Chief Executive and the Government to the Legislature. In the United States, the Constitution divides the Federal Government into three branches: the Executive, the Legislature and the Judiciary. According to the Constitution, the three branches are functionally interdependent. The Executive appoints the members of the Supreme Court with the advice and consent of the Senate, for example. However, only the Congress has the power to lay and collect taxes, to borrow money and to raise and support armies.

In France, the word, Government, is specifically directed to the Executive Branch alone. It encompasses the Prime Minister whom the President appoints, the Cabinet composed of ministers whom the Prime Minister proposes and the Presidents appoints, also. This Government determines and directs the policy of the nation, is responsible to Parliament (on motion of censure must submit its resignation) and directs the operation of the Government. Moreover, it is a link between the President of the Republic and the Parliament.

The Government of France, unlike the United States Executive Branch (using the French meaning of the term, Government) can initiate laws as well as participate in their execution. Nevertheless, financial laws are considered within the province of Parliament. However, if finance bills or amendments are introduced by members of Parliament, they will not be considered if they would result in either a reduction in

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

public financial resources or an increase or creation of public expenditures. Furthermore, for governmental bills, only the governmental texts of the bills submitted may be discussed in either House. The bills are submitted either to one of the six permanent committees allowed in each assembly or to a special committee if the Government or the concerned House requests it.

As in the United States, if the two Assemblies do not agree on the governmental text, a joint committee is formed to resolve the difference. However, if the Joint Committee fails in this endeavor or the two Assemblies do not approve the Joint Committee's text, the Government may ask the National Assembly to rule alone. Again, if all else fails and Parliament does not reach a decision within seventy days, the provisions of the bill may be enforced by ordonnance.

In the United States, of course, congressional power under the Constitution permits no such possibility. If Congress does not act on the Budget in time, a continuing resolution is adopted permitting the affected agency to continue functioning at its previously approved level. The President can veto a particular appropriation bill if he wishes but then it can still become law if both houses reconsider it after his objections and pass it anyway with a two thirds majority vote.

In the sense of "economy and efficiency," if one argues from the early interpretation which is concerned with money savings, it may appear that the centralized system of the French model is more likely to achieve the goal. However, recent guides for the ideal allocation of society's resources require explicitly not merely the fewest or least costly bundle of inputs for a given output level but that combination of commodities or goals which people prefer given their incomes and existing resources.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Thus, one swings back to the more balanced system prevailing in the United States to fulfill the criteria.

The question of "control" in its earlier sense of authorization, appears, also, to be better served within the more balanced power arrangement of the United States model, though it could be argued that the goal is better satisfied by a stronger Legislative Branch. Consideration of the second definition of "control" in the sense of "controllability" would appear to tip the balance towards a stronger Executive Branch or, at least, one with equal powers of discretionary spending during the execution phase. Present information, however, is not sufficient to endorse that opinion. In the final analysis, it has been the legal jargon of existing legislation which has veiled the limits of executive power during the execution phase.

In the case of the United States, the existence of huge sums of backdoor spending authorizations composed of parmanent appropriations, including mandatory entitlement programs, contract authority and authority to spend debt receipts has made it difficult to "control" the budget in the second sense. There is no reason to believe that with a stronger Legislative Branch in the United States, this type of problem would be diminished though Congress tends to argue that it is executive discretionary spending in these areas which is the problem. In the 1970's, the balanced power arrangement in the U.S. has been associated with a Federal budget of which 25 percent is "relatively controllable." On the other hand, the more powerful Executive Branch in France has been associated with a governmental budget of which approximately 10 to 15 percent is "controllable" or available for new public sector activities. Though the figures reveal a more "controllable" budget in

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

the U.S., there can be no definite resolution on the basis of these figures. "Controllability" in the second sense is too closely related to the political power structures for firm responses here.

The Role of the Central Bank and the Treasury

In France, the Bank of France (the central bank) is Government owned and under Treasury control such that it is merely an executant of policy. Monetary policy is determined primarily within one of the four committees which exercise an agreement, or "condominium" that the Bank of France shares with the Ministry of Economy and Finance. The policy-making committee is known as the National Credit Council and is composed of forty-five members drawn from the finance ministry, the credit institutions and the private industrial, agricultural and trade sectors.

In the United States, the Federal Reserve System and its twelve central banks are a blending of private, public, regional and national interests. Unlike the French national bank, the system is owned by private banking institutions though it is operated in the public interest. Unlike the French central bank, it is not a part of the budget process or subject to governmental audit procedures. Again, unlike the French central bank, it is completely responsible for monetary policy except for some powers left to the Treasury with respect to gold policy and the management of Treasury cash balances. The crucial policy making group is the Open Market Committee which includes the seven members of the Board of Governors appointed by the President and five of the regional bank presidents.

The linkage between the French Treasury and the Bank of France is more closely contained than that of the U.S. Treasury and the Federal Reserve System. There are daily transfers of funds between the French

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

institutions as, for example, tax collections or debt repayments due to the French Treasury by the bank's depositors are forwarded. The French system has never relied upon the practice of tax and loan accounts which permit commercial banks in the United States to hold Treasury funds until they are requested by that body. Another difference is that deposits to the French Treasury, postal orders and checks are considered a part of the total money stock. Finally, the banking system and the Treasury are linked through required holdings by the French Banking Institutions of Treasury bills.

In this way, the Treasury can draw upon the deposits of its correspondents or the sale of Treasury bills to cover its charges. It can borrow, in addition, from the Bank of France. None of these methods of raising funds is basically different from what is available to the United States Treasury. The difference arises, rather, from the nature of the French institutions--the centralized financial network--which appear to have enabled a faster development of accounting and financial data on the activities of Government.

"Economy and efficiency" in its older version when applied to a monetary system would appear to be better served by that system in which there are close linkages between the Central Bank, the Treasury and other financial institutions, where funds available to one are available to all, and again, where centralized operation prevails. Of course, the French system scores on all counts. Even with efficiency's translation here to the least costly bundle of inputs for desired transactions levels of a particular economy, one leans to the same answer. It is only when the extension of the term is made to that monetary system which people prefer, given their incomes and existing resources, that there is room for

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

alternatives. Preferences might dictate, for example, the autonomy of the central bank, or its subservience to the political scheme of Government, or some position in between.

With respect to "control", surely it is apparent that whether we mean authorization or the ability of Congress or the President to effect change in this area, the United States system can be improved. However, it must be recognized that the term, "control" in both of its formulations in the U.S. was never designed intentionally for application to a nation's monetary system. It was addressed, first, strictly to budgetary acts such as spending, then to borrowing, and more recently, to other fiscal policies as well, e.g., impoundment of funds for fiscal policy reasons. The monetary sphere, therefore, remains an important area of governmental activity in which "control" has no precise meaning in the United States. The French, on the other hand, have always viewed the State as a banker as well as a spender and a borrower. Thus, "control" of the budget incorporated financial institutions and their practices from the outset.

Significance and Contributions of
Subsidiary Institutions

In both France and the United States, there are participants in the budgetary process who serve in an advisory capacity only or have been added to the list of participants to fulfill new goals. In the United States, there is the Council of Economic Advisers (created in 1946) as an example, and in France, there is the Economic and Social Council (created in 1926). Neither council's role within the budgetary process is clearly stated and, in the French case, the Council is specifically excluded from direct consideration of budgetary matters. Among the new participants in

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

each nation have been the Domestic Council in the United States and the Interministerial Commission in France. In these and other cases, the concern has not been for improving "economy and efficiency" or even with some form of budget "control." Instead, the introduction of new institutions in the two countries has occurred in response to demands of new functions. It may be the solution is appropriate, but more attention to duplication and overlapping spheres of interest with existing agencies and departments continues to plague both systems.

Budget Presentation

The organic law of 1959 separated the budgetary authorization procedure into two separate steps. The first part of the finance bill and, hence the first voting upon it, authorizes the collection of taxes, sets the ceilings for the broad expenditure categories, and estimates the budget imbalance, if any, and its financing from the Treasury or from borrowings. The second part of the finance bill divides the total amount of crédits - sums assigned to given objects in the budget which are available for expenditures within the fiscal year - between those applicable to service votés, the existing services, and mésures nouvelles, the expenses applicable to new authorization by title and by ministry. The finance bill authorizes, in the same way, the operations of the annexed budgets and the special accounts of the Treasury. In addition, it arranges the authorizations de programme or governmental investment projects, according to their dates of performance.

In the written presentation of the initial finance bill, the loi de finances is divided into four parts: the general budget, plus those special accounts of the Treasury which include operations of a

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

final nature as in the general budget, the annexed budgets, and the special accounts of the Treasury which include operations of a temporary nature.

In contrast, the unified budget of the United States Government as it was introduced in 1969, was divided into three sections composed of budget authority, the receipts-expenditures and net lending account, and the means of budget financing. More recently, the fiscal year 1977 budget is divided into two sections only; budget authority, and receipts and outlays. For the period in which the United States budget did make a distinction between spending and lending, it is possible to make a comparison between the proportions of the budget in each area here as opposed to the division in France. The outcomes over a ten year period show that loan disbursements have represented a larger proportion of global expenditures in the United States than they have in France from 1964 through 1971. In three years, 1966, 1967. and 1968, U.S. loan disbursements were more than 10 percent of global Federal expenditures. Nevertheless, the determination of the level of credit activities are most frequently outside the budget process in the United States and their treatment in or out has been most inconsistent. Fortunately, the recent creation of the Federal Financing Bank has made these failures more obvious.

Essentially, the French and the United States budgets differ in several ways. Some of these ways may be discussed under the headings: content, netting and timing. In content, the U.S. budget is more comprehensive than the French. For example, the French budget excludes the Social Security System, the nationalized enterprises and, on the whole, has a much larger extrabudgetary sector than the United States. With

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

respect to netting practices, there is a great deal more of this in the United States where not only are intragovernmental transactions netted out of totals, but proprietary receipts from the public derived from Government activities of a business-type or market-oriented nature are offset against related budget authority and outlays. Finally, and most importantly, the time concept employed in each country is radically different. In France, the adherence to the rule of the annuality of the budget process can be considered a fetish. The crédits which are assigned to various expenditures categories within the budget are almost exclusively designed to be spent in the ensuing fiscal year (except for special crédits assigned to investment programs) and, if not, will be annulled at the end of the year.

On the other hand, the United States budget is not a spending budget in the practical sense of that term but is, rather, a recording of authorizations to incur obligations to spend in whatever year, though it includes those obligations for the ensuing fiscal year separately. The position of prominence accorded present and prior budget authority in the budget statement is ample evidence of this predilection. It is also evident that in such a system, "efficiency" may be difficult to measure because (1) there may be large carryover balances (which there are), (2) there may be no necessary relationship in a single year between the change in budget authority and the change in expenditures (which there is not), and (3) it may be difficult to maintain the significance and the control which the annual budget process was conceived to maintain (which it has been).

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Budget Legislation and New Procedures

In France, the loi de finances must present the economic and financial objectives of the Government. To do so, it must show the relationships between the budget and the national economy. The budget is contained within the national accounting framework which includes the State, the lower levels of Government, the nationalized enterprises and the social security system. As for the vote of the budget, Parliament must pronounce first on overall budget totals. In the United States, prior to the Congressional Budget and Impoundment Control Act of 1974, there were neither provisions for the manner of voting on the budget nor for economic consdierations to be a formal part of the budget document. According to the Employment Act of 1946, an economic report must be transmitted to the Congress but it plays no clearly defined role in the budget process and, furthermore, follows budget transmission. With the new U.S. Budget Act and its creation of a Congressional Budget Office, a House and Senate Budget Committee and what amounts to an alternative budget designed by the Legislature, economic considerations must become more explicit but their formal expression is still not clear. In France, however, the governmental assumptions and policies concerning the economy are contained in the budget documents and are, thereafter, defended and debated by the highest representatives of the Government and the Parliament as a predetermined step in the budget process.

The U.S. Budget Act of 1974 provides, also, for the passage of a budget resolution which sets target figures for total appropriations, total spending, appropriate tax and debt levels before consideration of any specific appropriations are permitted. The step is entirely new to

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

our system as is the congressional oversight and special procedures associated with withdrawal of funds from spending by the Executive Branch. However, there are no provisions made in the act for the supervision of other types of withdrawals or transfers in general during the year. In fact, it is clear from comparisons of initial estimates, supplementary estimates and actual outlays during the budget year that substantial changes of these types do take place. Nevertheless, there has been no place of record for them either during or at the close of the budget year. Since the French budgetary reform of the 1970's, information on the nature and the scope of transfers within agencies and between them has been available on a limited basis. It would seem that both "efficiency" and "control" procedures are in need of further refinement in the U.S. for these purposes.

Another aspect of the problem of "control" of the budget which is dealt with in the Budget Act is that concerning backdoor spending authority, or those items of budget authority which do not proceed through the annual appropriations process. Unfortunately, the Act leaves untouched all existing authority of this type and exempts any new spending authority if derived from the Social Security Act or other sources, which practically void the possible effectiveness of the new procedures introduced in this section. The Act does present promising improvements through its requirements for a "tax expenditures" budget and a study of "off-budget" agencies. Off-budget agencies add significantly to the problems of financing the budget deficit. In the initial budget document for Fiscal Year 1977, off-budget agencies contributed slightly more than 20 percent of the total deficit. In addition to the fact that the exclusion of these agencies reduces the comprehensiveness of the budget and the validity of

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

its totals, the off-budget agencies have occasioned other difficulties. First, they are mainly lending agencies and, hence, their actions do have different effects than ordinary Government expenditures. Secondly, a large proportion of the total deficit of the off-budget agencies is traced to the Federal Financing Bank created in 1973. The FFB is supposed to assist agency borrowing and Government guaranteed borrowing and to reduce the cost of borrowing for Government in some of its activities. The anachronism here is that as a result of the existence of the FFB, a Government agency ends up making a direct loan when Congress authorized a guaranteed loan only in the initial legislation. Certainly, there appears to be some conflict in this case between the concept of "efficiency" and the concept of "control."

A promising improvement in the U.S. budgetary process is the provision in the act for five-year budget projections. Unlike the short-term estimates, the long term projections are purely mechanical and incorporate the administration's specific assumptions on the level and rate of growth of real GNP, employment and prices. In addition, they incorporate the administration's decisions on the level and rate of growth of existing and new outlay and tax programs. Only, within these limits, do the estimates reflect the future commitments of the nation's resources. These estimates, however, are invaluable in pointing up the major recommendations of the admininistration in the first place, and, in doing so in a framework which extends beyond the budget horizon. The question of compatability and consistency of long range goals and stabilization policy is raised openly in this way. The question of the ideal allocation of resources between the private and public sectors and within the public sector arises along with the first question. Finally, Congress will need

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

to clarify its own thinking to permit it to say just what it means by an "efficient" budget program and an "efficient" and "effective" budget process. Much of the preliminary thinking on these questions could be facilitated by an overall review of past macroeconomic goals and actions as recorded in past budget series which were analyzed within the economic conditions that prevailed at the time.

Specification of Budget Goals and Concepts

In the study, budget goals have been assumed given and analyses were directed towards locating all the facts concerning the means of attaining them inscribed in the budget. However, the success of our means both in their efficiency and their effectiveness can be judged only in the light of chosen goals. In France, rules and principles of budgeting surfaced early and goals of comprehensiveness, clarity and accountability were expressly stated. In 1959, the law particularly defined the budget as more than a statement of Government operations or a forecast of receipts and expenditures but as a method of achieving overall economic and financial equilibrium in the nation. This was the principal reason, undoubtedly, for the inclusion of an economic and financial report along with detailed annexes for the information and control of Parliament. Much of the examination of the French "deficit" in Chapter 5 was an attempt to better reveal the economic impact of the budget upon the economy. In the United States, the unified budget had this objective in view, also. Nevertheless, though the stabilization of the economy has been an explicit goal for some time, the unified budget does not systematically engage in an examination of the past and present states of the economy and the contribution of the Federal budget to these states.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Most seriously, any analysis included, such as reference to the full employment budget, ignores monetary considerations or glosses over them in either the financing of the deficit or the disposing of the surplus. Frequently, it is not because budget specialists are unaware of the substantial effects of financial considerations, but rather the fixed idea that fiscal and monetary matters must not be dealt with in the same document. Unfortunately, the legacy of the interpreters of John Maynard Keynes have fostered this neglect of financial condidions as a part of the initial problem. There is one table in the U.S. budget document which described the primary means of financing deficits but the information given is inadequate to relate its contents to interest rates, the rate of inflation or the type and composition of public liabilities (private assets) much less any overall relationship with monetary equilibrium or price stability objectives for the economy as a whole. Furthermore, it has been indicated above that the financing of the budget balance just as the existence of the balance, itself, effects the economic behavior of individuals and, hence, resource allocation. We need to know more about how and how much. Unless we have the specific financial information available in relatable terms, it is difficult for the necessary inquiries to proceed.

Busget Process in Operation

Certain economic issues not well resolved to date and other than those raised above come to mind in reviewing the budget process as a whole. These areas include the time dimension of budgeting, the manner of estimation of receipts and expenditures and the problem of executive "overspending" and "underspending."

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Time Dimension of Budgeting

The United States budget year is now October 1st to September 30th while the French budget year remains the calendar year. Executive preparation of the budget in both countries is about eight months in length but, for France, this period precedes budget execution by approximately three months while, in the United States, the period is approximately eight months before budget execution. Perhaps "control" will be better served by the longer period of study permitted the U.S. Congress but the effect on "economy" and "efficiency" may more than offset this feature. Not only will all estimates be subject to considerable revision but goal priorities may well shift before the budget is in operation.

Method of Estimation of Receipts and Expenditures.

The time dimension of budgeting discussed above will have substantial effects on the accuracy of any method of estimation of receipts and expenditures. However, the point at hand is that whereas explanation of tax policy and revenue estimates have tended to be well explained in French documents, there has been little said about them, traditionally, in the U.S. documents. On the other hand, estimates of expenditures are well detailed in both countries and, in both countries, have tended to be listed at higher levels initially than at completion of the authorization process. In the United States, this has been partly in reaction to expected behavior by the budget office who can reduce requests. In France, where the budget division and even the Minister of Economy and Finance does not have the right to reduce expenditure requests unilaterally, it is because of tactical reasons in the traditional conferences between the administration and the spending ministries. In any event, the United States

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

may find it more difficult now to arrive at realistic forecasts than prior to the present budget process in view of the long lead time to execution. In view of the uncertainty involved in any future forecasts, the lengthening of the budget preparatory phase seems ill-advised.

Problem of Executive "Overspending" and "Underspending."

The first term, "overspending" would appear to be in sharp contrast to what has been said above. The second term, "underspending" appears to contradict the first statement. Nevertheless, the United States Executive Branch has been accused of both actions within the budget process. The "overspending" problem has been discussed within the context of the unreasonable cumulation of Federal deficits over the years. It has been discussed, also, in the framework of requests for supplemental appropriations and the existence of large carryover balances from year to year. On the other hand, the "underspending" problem is associated with the executive employment of the tactic of withdrawal of funds previously authorized for spending purposes. Neither action can be proved or disproved in a legal or a moral sense without more concerted, more consistent and more cohesive labors on the part of Congress and the G.A.O. Furthermore, both accusations imply basic defects in the budgetary process which relate to "economy and efficiency" and "control." Therefore, six recommendations listed below are most urgently suggested as corrective steps:

Six Recommendations

(1) Standard classification systems throughout Government should be instituted so that transfers in space and time are tracked during the budget year as well as compared over years in a quantitative and a qualitative

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

sense.

(2) An attempt should be made to separate forecasting errors and technical errors from explicit acts performed in the name of economy, good management or fiscal purposes.

(3) Budget authority which grants the right to incur expenditures without being subject to the annual budget process should be more clearly identified and totaled separately by annual estimate in the budget.

(4) There should be an overall review of the budget at the close of the year by Congress (similar to the passage of the loi de règlement in France) to determine whether the execution of the budget achieved its overall goals in terms of congressional intent as well as from a legal and accounting standpoint. This review should be conducted within the framework of the national economy as it existed prior to the budget and after budget execution while clearly specifying macroeconomic goals.

(5) To aid the Congress in their review, the G.A.O., as an independent body, should make an overall audit of the executed budget from the central accounts of the Government (Treasury) at the close of the fiscal year to establish their legality, conformity, efficiency and effectiveness in achieving the stated budgetary goals on the basis of the initial authorized budget. The Agency should offer recommendations, also, on the basis of their analysis.

(6) Some scheme for reconciling the fiscal and financial activities of the Government from day-to-day and from year-to-year should be introduced. Congressional oversight of spending and taxing policies is incomplete when it neglects to view the financial mechanism which implements the budget's path to desired goals. Stabilization policy can ill afford continued neglect of this area. It is vital that more information on debt

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

management by the Treasury and the Federal Reserve System purchase and sales of U.S. Government securities appear within the budget documents. Not only present levels of economic activity are affected by these current choices but we now know, most assuredly, that future levels are affected as well.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

SELECTED BIBLIOGRAPHY

Articles

Banque Nationale de Paris. "Les crédits optionnels et l'adaptation du budget français à l'action économique." Banque Nationale de Paris No. 13. (Janv. 1970): 3-7.

Bator, Francis M. "Budgetary Reform: Notes on Principles and Strategy." Review of Economics and Statistics, Vol. XLV (May 1963): 115-120. Reprinted in Readings in Money, National Income and Stabilization Policy. Edited by Warren L. Smith and Ronald L. Teigen, Homewood, Ill.: R.D. Irwin, Inc., 1962.

Blinder, A.S. and Solow, R.M. "Does Fiscal Policy Matter?" Journal of Public Economics vol. 2, no. 4 (Nov. 1973): 319-337.

Bravo, Jacques. "La R.C.B. et le management de l'état." Révue de Science finançière no. 2 (Avr,-Juin 1972): 289-355.

Buchanan, James M. "The Pure Theory of Government Finance." Journal of Political Economy vol. LVII, no. 5 (Oct. 1949) 496-505.

Carlson, Keith. "Large Federal Budget Deficits: Perspectives and Prospects." Federal Reserve Bank of St. Louis 'Review' vol. 58, no. 10 (Oct. 1976): 2-7.

Carlson, Keith M. and Spencer, Roger W. "Crowding Out and Its Critics." Federal Reserve Bank of St. Louis 'Review' vol. 57, no. 12 (Dec. 1975): 2-17.

Congressional Quarterly. "CBO Director Alice Rivlin: No 'Hidden Agenda' ...Economic Affairs." Excerpts from interview with Alice Rivlin conducted by Donald Smith. CQ Weekly Report vol. XXXIII, no. 36 (6 Sept. 1975): 1924-1925.

_____ . "Conferees Approve Budget Procedures Reform." CQ Weekly Report vol. XXXII, no. 24 (15 June 1974): 1590-1594.

_____ . "Government in the Sunshine Approved 390-5" by Ted Vaden. CQ Weekly Report vol. XXXIV, no. 31 (31 July 1976): 2067-2069.

_____ . "Senate Committee Reports 'Sunset' Bill" by Mary Eisner Eccles. CQ Weekly Report vol. XXXIV, no. 33 (14 Aug. 1976): 2238-2239.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

_____ . "'Sunset' Bills: An Eye on Big Government" by Judy Gardner. CQ Weekly Report vol. XXXIV, no. 17 (24 April 1976): 955-956.

_____ . "'Sunshine' Bill Signed." CQ Weekly Report vol. XXXIV, no. 38 (18 Sept. 1976): 2558.

Cordebas, Collette. "Le budget, la Trésorie, la dette publique." Révue d'économie politique vol. 71, no. 4-5 (Juill-Oct. 1961): 471-500.

Dale, Edwin L., Jr. "Financier for the U.S. Debt: Ralph Forbes Arrives in Very Touchy Times." New York Times sec. 3 (20 Apr. 1975): F7.

Dupont, Jean. "La réforme de la compatabilité de l'état." Bulletin de liasion et d'information de l'administration centrale de l'économie et des finances 20.52 (Juill-Sept. 1970): 41-53.

Duprat, Jean-Pierre. "La Debudgetisation." Révue de science finançière no. 1 (Janv.-Mars 1972): 69-161.

Duwendag, Dieter. "The Postwar Economic System in Germany: Creation, Evolution and Reappraisal." Translated by Hans Helbling. Federal Reserve Bank of St. Louis 'Review' vol. 57, no. 10 (Oct. 1975):

Fabre, Francis J. "La Réforme de la Cour de discipline budgétaire et finançière." Révue administratif vol. 24, (143) (Sept-Oct. 1971): 539-543.

Fisher, Louis. "Impoundment of Funds: Uses and Abuses." Buffalo Law Review vol. 23 no. 1 (Fall 1973): 142-172. Reprinted by Library of Congress, Congressional Research Service (18 Feb. 1974).

_____ . "Presidential Spending Discretion and Congressional Controls" Reprinted from Symposium on Administrative Discretion as Winter 1972 issue of Law and Contemporary Problems.

_____ . "Reprogramming of Funds by the Defense Department." Journal of Politics vol. 36, no. 1 (1974): 77-102.

Geyer, Herbert. "On the Variability of Asset Preferences." Finanzarchiv band 34 heft 3. J.C. Mohr (Paul Siebeck) Tubingen (1976): 389-404.

Humphrey, Hubert H. "National Economic Planning: Pro and Con." New York Times sec. 3 (21 Dec. 1975): F12.

Initiative Committee for National Economic Planning. "The Case for Government Planning." New York Times sec. 3 (16 March 1975): F14.

Kerekes, Gabriel T. "A Failure to Equate" in Letters on Deficit Financing. Wall Street Journal (2 April 1975): 12.

Key, V.O. Jr. "The Lack of a Budgetary Theory." The American Political Science Review vol. XXXIV, no. 6 (Dec. 1940): 1137-1144.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Keyserling, Leon H. "For a Full Employment Act by 1976." Challenge (July-Aug): 22-25.

Krieger, Ronald A. "The Budget Deficit: How Dangerous? New York Times sec. 3 (13 April 1975): 1.

Kristol, Irving. "The Inexorable Rise of the Executive." Wall Street Journal (20 Sept. 1974): 12.

Leiserson, Avery. "Coordination of Federal Budgetary and Appropriations Procedures under the Legislative Reorganization Act of 1946." National Tax Journal vol. 1, no. 2 (June 1948): 118-126.

_____. "Coordination of Federal Budgetary and Appropriation Procedures under the Legislative Reorganization Act of 1946." Reprinted in Improving Congressional Control over the Budget, pp. 520-527. A Compendium of Materials compiled by staff of Subcomm. on Budgeting, Management & Expenditures of U.S. Senate Comm. on Gov't. Operations (27 March 1973). Committee Print.

Lerner, Abba P. "Functional Finance and the Federal Debt." Social Research vol. 10 (Feb. 1943): 38-51.

Lewis, Verne B. "Toward a Theory of Budgeting." Public Administration Review vol. XII, no. 1 (Winter 1952): 42-54.

Nelson, D.J. "The Omnibus Appropriations Act of 1950" Journal of Politics vol. 15, no. 2 (May 1953) reprinted in Improving Congressional Control over the Budget, pp. 528-542. A Compendium of Materials compiled by staff of Subcomm. on Budgeting, Management & Expenditures of U.S. Senate Comm. on Gov't. Operations (27 March 1973). Committee Print.

Neustadt, Richard E. "The Constraining of the President." New York Times Magazine (14 Oct. 1973): 38-117.

Pellenc, Marcel. "Les erreurs et les faiblesses de notre politique-budgétaire." Révue politiques des idées et des institutions 57 (1-2) (Janv. 1968): 14-24.

_____. "Les practices abusives conçernant le budget de l'état." Révue politique des idées et des institutions 56 (14-15) (Août Sept. 1967): 277-286.

Samuelson, Paul A. "The Pure Theory of Public Expenditures." Review of Economics and Statistics (Nov. 1954): 387-389.

Schick, Allen. "The Road to PPB: The Stages of Budget Reform." Public Administration Review vol. 26, no. 4 (Dec. 1966): 243-258. Reprinted in Planning-Programming-Budgeting, pp. 26-52. Edited by Fremont J. Lyden & Ernest G. Miller, 2nd ed. Chicago: Markham Publ. Co., 1972.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Stein, Herbert. "What's in a Deficit." New York Times (14 Jan. 1975): 25.

Sundleson, J.W. "Budgetary Principles." Political Science Quarterly vol. 1, no. 2 (June 1935): 236-263.

U.S. News and World Report. "Outlays Outside the Budget Now at 15.6 Billions." U.S. News and World Report (25 Feb. 1974): 76-78.

_____ . "Highlights of Democrats' Plan for 'Full Employment'." U.S. News and World Report (22 March 1976): 65-66.

_____ . "Where 40 Billions in Tax 'Subsidies' Go." U.S. News and World Report (27 Dec. 1971): 29-30.

Watrin, Christian. "On the Question of Measuring the Efficiency of Economic Systems." The German Economic Review vol. 11, n. 2 (1973): 89.

Zorgbibe, Charles. "Le budget moyen de contrôle de l'éxecutif." La Révue administratif 20e année (119) (Sept,-Oct. 1967): 524-530.

Monographs

American Institute of Certified Public Accountants, Auditing Standards Established by the GAO. Their Meaning and Significance for CPA's. Prepared by the Committee on Relations with the GAO of AICPA, New York, 1973.

_____ . Codification of Auditing Standards and Procedures. Prepared by the Committee on Auditing Procedure. New York: A.I.C.P.A., 1973.

Amselek, Paul. Le Budget de l'état sous la Ve République. Bibliothèque de science financière No 5. Librairie générale de droit et de Jurisprudence. Paris: R. Pichon et R. Durand-Auzias, 1966.

Arrow, Kenneth J. The Limits of Organization. New York: W.W. Norton and Co., 1974.

Autin, Jean. 20 Ans de politique financière. Collections dirigée par Robert Fossaert et Edmond Blanc. Paris: Éditions du Seuil, 1972.

Bartelt, E.F. Accounting Procedures of the United States Government. Chicago: Public Administration Service, 1940.

Bertrand, L. Le Contrôle parlementaire des finances publiques. Paris: Clermont-Ferrand, 1962.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Blachly, F.F. and Oatman, M.E. Federal Regulatory Action and Control. Washington: The Brookings Institution, 1940.

Blechman, Barry M., Gramlich, Edward M., and Hartman, Robert W. Setting National Priorities: The 1976 Budget. Washington, D.C.: The Brookings Institution, 1975.

Break, George F. Federal Lending and Economic Stability. Washington, D.C.: The Brookings Institution, 1965.

Brown, Richard E. The G.A.O. Untapped Source of Congressional Power. Foreword by Senator William Proxmire. Knoxville: University of Tennessee Press, 1970.

Brown, William J. The Federal Budgeting and Appropriations Process. New York: Department of Economics & Research, American Bankers Association, 1967.

Brundage, P.F. The Bureau of the Budget. New York: Praeger Publishers, 1970.

Burkhead, Jesse. Government Budgeting. New York: John Wiley & Sons, Inc., 1956.

Cohen, Stephen. Modern Capitalist Planning: The French Model. Cambridge: Harvard University Press, 1969.

Cotteret, Jean-Marie et Émeri, Claude. Le Budget de l'état. "Que sais-je? Le Point des connaissances actuelles Nº 1484. Paris: Presses Universitaires de France, 1972.

Davie, Bruce F. and Duncombe, Bruce F. Modern Political Arithmetic. The Federal Budget and the Public Sector in National Economic Accounts. New York: Holt, Rinehart & Winston, Inc., 1970.

Deruel, François. Finances publiques: documents. Mementos Dalloz. Paris: Librairie Dalloz, 1972

Devaux, G. La Comptabilité publique. Paris: Presses Universitaires de France, 1957.

Duverger, Maurice. Le Vᵉ République. 4ᵉ Édition. Paris: Presses Universitaires de France, 1968.

Edmond-Grangé, Jacques. Le Budget fonctionnel en France. Avant-propos de Louis Trotabas. Préface de C-A. Colliard. Bibliothèque de science finançière sous la direction de Louis Trotabas. Paris: J.G.D.J., Pichon et R. Durand-Auzias, 1963.

Fabricant, Solomon. Toward Rational Accounting in an Era of Unstable Money, 1936-1976. National Bureau Report 16. New York: National Bureau of Economic Research, Inc., 1976.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Fenno, Richard R., Jr., The Power of the Purse: Appropriations Politics in Congress. Boston: Little, Brown & Co., 1966.

Firestone, John M. Federal Receipts and Expenditures during Business Cycles, 1879-1958. A Study by the National Brueau of Economic Research. Princeton: Princeton University Press, 1960.

Friedman, Milton. A Theory of the Consumption Function. A Study by the National Bureau of Economic Research, New York, Princeton: Princeton University Press, 1957.

Gaines, Tilford. Techniques of Treasury Debt Management. New York: A Joint Publication of Graduate School of Business, Columbia University and the Free Press of Glencoe, 1962.

Haig, Robert Murray. The Public Finances of Post-War France, New York: Columbia University Press, 1929.

Harris, Joseph P. Congressional Control of Administration. Washington, D.C.: The Brookings Institution, 1964. Chapter 5 reprinted in Improving Congressional Control over the Budget, pp. 395-471. A Compendium of Materials comp. by Subcomm. on Budgeting, Management, & Expenditures of U.S. Senate Comm. on Gov't. Operations (27 Mar. 1973). Wash., D.C.: Gov't. Pr. Off., 1973.

Horn, Stephen. Unused Power: The Work of the Senate Committee on Appropriations. Washington, D.C.: The Brookings Institution, (no date). Chapter 7 reprinted in Improving Congressional Control over the Budget, pp. 485-519. A Compendium of Materials comp. by staff of Subcomm. on Budgeting, Management & Expenditures of U.S. Senate Comm. on Gov't. Operations (27 Mar. 1973). Wash., D.C.: Gov't. Pr. Off., 1973.

Kerjolis, Jean-Pierre. La Direction du budget. Paris: L'Institut de Paris. Institut d'études politiques, 1963.

Lévy-Lambert, H. et Guillaume, H. La Rationalisation des choix budgétaires. Techniques d'analyse. "l'Économiste." Section dirigée par Pierre Tabatoni. Préface de Pierre Massé. Paris: Presses Universitaires de France, 1971.

Lewis, Wilfred, Jr. Federal Fiscal Policy in Postwar Recessions. Washington, D.C.: The Brookings Institution, 1962.

_____. Federal Fiscal Policy in the Postwar Recessions. Washington, D.C.: The Brookings Institution, 1962. "A Summary," pp. 12-24, reprinted in Readings in Money, National Income and Stabilization Policy. Edited by W.L. Smith and R.L. Teigen. Homewood: R.D. Irwin, Inc., 1965.

Lidderdale, D.W.S. The Parliament of France. New York: F.A. Praeger, 1952.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Lord, Guy. The French Budgetary Process. Berkeley: University of California Press, 1973.

Niskanen, William A. Structural Reform of the Federal Budget Process. Domestic Affairs Study No. 12, Washington, D.C.: American Enterprise Institute for Public Policy Research, 1973. Repr. in Improving Congressional Control of the Budget, pp. 465-524. Hearings before the Subcomm. on Budgeting, Management & Expenditures of U.S. Senate Comm. on Gov't. Operations, Part 2 (1, 7 & 9 May 1973). Wash., D.C.: Gov't. Pr. Off., 1973.

Pyhrr, Peter A. Zero-Base Budgeting. A Practical Management Tool for Evaluating Expenses. New York: John Wiley & Sons, 1973.

Rivoli, Jean. Le Budget de l'état. Paris: Éditions du Seuil, 1969.

Saloma, John S. III. The Responsible Use of Power: A Critical Analysis of the Congressional Budget Process. Washington, D.C.: American Enterprise Institute, 1964. Part IV repr. in Improving Congressional Control over the Budget, pp. 543-569. A Compendium of Materials comp. by staff of Subcomm. on Budgeting, Management & Expenditures of U.S. Senate Comm. on Gov't. Operations (27 Mar. 1973) Wash., D.C.: Gov't. Pr. Off., 1973.

Simon, Henry A. Administrative Behavior. New York: MacMillan Company, 1948.

Smith, Dan Throop. Federal Tax Reform: The Issues and a Program. New York: McGraw-Hill Book Co., 1961.

Smithies, Arthur. The Budgetary Process in the United States. A Research Study for the Committee of Economic Development. 1st Edition. New York: McGraw-Hill Book Co., Inc., 1955.

_____. The Budgetary Process in the United States. A Research Study for the Committee of Economic Development. New York: McGraw-Hill Book Co., Inc., 1955. Part III repr. in Improving Congressional Control over the Budget, pp. 359-394. A Compendium of Materials comp. by staff of Subcomm. on Budgeting, Management & Expenditures of U.S. Senate Comm. on Gov't. Operations (27 Mar. 1973). Wash., D.C.: Gov't. Pr. Off., 1973.

Stourm, René. The Budget. Translated by Thaddeus Plazinski from 7th Edition of Le Budget. Paris, 1913. Institute of Government Research. New York: D. Appleton and Co., 1917.

Wildavsky, Aaron. Politics of the Budgetary Process. Boston: Little, Brown and Co., Inc., 1964.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Texts

Barrère, Alain. Économie et institutions financières. 2 vols. Paris: Dalloz, 1965.

Brochier, H. et Tabatoni, P. Économie financière. 2e édition. Paris: Collection "Thémis," 1963.

Due, John F. Government Finance: Economics of the Public Sector. 4th ed. Homewood: R.D. Irwin, Inc., 1968.

_____ . Sales Taxation. Urbana: University of Illinois Press, 1957.

Duverger, Maurice. Finances publiques. 5e éd. "Thémis" Manuels juridiques, économiques et politiques. Collection dirigée par Maurice Duverger. Paris: Presses Universitaires de France, 1965.

Finer, S.E. Comparative Government. New York: Basic Books, Inc., 1971.

Henderson, James M. and Quandt, Richard E. Microeconomic Theory: A Mathematical Approach. 2nd ed. Economics Handbook Series. Seymour E. Harris, Ed. New York: McGraw-Hill Book Co., 1971.

Herber, Bernard P. Modern Public Finance. The Study of Public Sector Economics. Rev. ed. Homewood: R.D. Irwin, Inc., 1971.

Holmes, Arthur W. and Overmeyer, Wayne S. Auditing Principles and Procedure. 7th ed. Homewood: R.D. Irwin, Inc., 1971.

Jèze, Gaston. Traité de science des finances: le budget. Paris: V. Giard et E. Brière, 1910.

Laferrière, Julien et Waline, Marcel. Traité élémentaire de science et de législation financière. Paris: Librairie générale de droit et de jurisprudence, 1952.

Lee, Robert D., Jr. and Johnson, Ronald W. Public Budgeting Systems. Baltimore: University Book Press, 1971.

Musgrave, Richard A. The Theory of Public Finance. A Study in Public Economy. New York: McGraw-Hill Book Co., Inc., 1959.

Musgrave, Richard A. and Musgrave, Peggy B. Public Finance in Theory and Practice. 2nd ed. New York: McGraw-Hill Book Co., Inc., 1976.

Oxenfeldt, Alfred R. and Holubnychy, Vsevolod. Economic Systems in Action. The United States, the Soviet Union and France. 3rd ed. New York: Holt, Rinehart and Winston, Inc., 1965.

Pallez, Gabriel. Finances publiques. Paris: Les Cours de droit, 1963-1964.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Samuelson, Paul A. Economics. 9th ed. New York: McGraw-Hill Book Co., Inc., 1973.

Shoup, Carl S. Public Finance. 2nd printing 1970. Chicago: Aldine Publishing Co., 1969.

Shultz, William J. and Harriss, C. Lowell. American Public Finance. Englewood Cliffs: Prentice-Hall, Inc., 1965.

Sigler, Jay A. and Getz, Robert S. Contemporary American Government: Problems and Prospects. New York: Van Nostrand Reinhold Co., 1972.

Trotabas, Louis avec la collaboration de Cotteret, J-M. Finances publiques. 4e éd. Précis Dalloz. Paris: Dalloz, 1970.

Vogüé, Pierre de. Finances publiques. Le Trésor et les fonctions de la trésorie. Paris: Université de Paris. Institut d'études politiques, 1965-1966.

Other Works

Ash, Roy L. "Presidential Budgetary Reform" in Controlling Federal Government Expenditures, the Roles of Congress and the Administration. CED Symposium, pp. 8-11. Al Ullman, Roy Ash, Murray L. Weidenbaum and Ronald R. Davenport. Introduction by Emilio G. Collado. Wash., D.C.: Committee for Economic Development, Oct. 1973.

Baum, Warren C. The French Economy and the State. A Rand Corporation Research Study. Princeton: Princeton University Press, 1958.

Colm, Gerhard. "Why Public Finance?" in Essays in Public Finance and Fiscal Policy, pp. 3-23. By Gerhard Colm with editorial assistance of Helen O. Nicol. New York: Oxford University Press, 1955.

Emmerich, Herbert. Federal Organization and Administrative Management. University: University of Alabama Press, 1971.

Fisher, Louis. President and Congress: Power and Policy. New York: The Free Press, 1972.

_____. "Presidential Budget-Making." Prepared for delivery at the 1975 Annual Meeting of the American Political Science Association, San Francisco Hilton Hotel, San Fran., Calif. (2-5 Sept. 1975). Copyright APSA, 1975.

_____. Presidential Spending Power. Princeton: Princeton University Press, 1975.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Goulon, Roger-Jean. À La Récherche de l'équilibre perdu. Paris: Les Oeuvres françaises, 1936.

Hall, Challis F., Jr. Fiscal Policy for Stable Growth. A Study in Dynamic Macroeconomics. New York: Holt, Rinehart and Winston, Inc., 1960.

Hansen, Alvin. Fiscal Policy and Business Cycles. New York: W.W. Norton and Co., Inc., 1941.

Hansen, Bent assisted by W.W. Snyder. Fiscal Policy in Seven Countries, 1955-1965. Belgium, France, Germany, Italy, Sweden, United Kingdom and United States. Organization for Cooperation and Development, 1969.

Hayward, Jack. The One and Indivisible French Republic. New York: W.W. Norton and Co., Inc., 1973.

Huet, Philippe. "Le Mouvement de R.C.B." in L'Expérience française de rationalisation des choix budgétaires. Edited by Philippe Huet et Jacques Bravo. Collection dirigée par Pierre Tataboni. Paris: Presses Universitaires de France, 1973.

Keynes, John Maynard. The General Theory of Employment, Interest and Money. New York: Harcourt, Brace and World, Inc., A Harbinger Book, 1964.

Kimmel, Lewis H. Federal Budget and Fiscal Policy 1789-1958. Wash., D.C.: The Brookings Institution, 1959.

Laufenburger, Henri. Finance Comparées. États-Unis, France, Grande-Brétagne et l'Union des Républiques Socialistes Soviétiques. Paris: Recueil Sirey, 1950.

Levy, Michael E. Fiscal Policy, Cycles and Growth. The Conference Board. Studies in Business Economics No. 81. New York: NICB, 1963.

Levy, Michael E., Smith, Delos R., de Torres, Juan and Massaro, Vincent. The Federal Budget. Its Impact on the Economy. Fiscal 1975 Edition. Conference Board Report No. 621. New York: The Conference Board, Inc., 1975.

_____. The Federal Budget: Its Impact on the Economy. Fiscal 1976 Edition. New York: The Conference Board, Inc., 1975.

Lewis, Wilfred, Jr., ed. Budget Concepts for Economic Analysis. Studies of Government Finance. Washington, D.C.: The Brookings Institution, 1968.

Maclennan, M., Forsyth, M. and Denton, G. Economic Planning and Policies in Britain, France and Germany. New York: F.A. Praeger, 1968.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Musgrave, Richard A. and Peacock, T.T., eds. Classics in the Theory of Public Finance. New York: St. Martin's Press, 1967.

Neumark, Fritz. "The German Stabilization Law: A New Experiment." Translated by C. Marfels in Modern Fiscal Issues: Essays in Honor of Carl S. Shoup, pp. 225-245. Edited by Richard M. Bird and John G. Head. Toronto: University of Toronto Press, 1972.

Nourse, Edwin G. Economics in the Public Service. New York: Harcourt, Brace and Co., 1953.

Patman, M.C., Wright. "What Improvements are Needed in the Money System" in Monetary Theory and Policy, pp. 58-70. Edited by R.A. Ward. Scranton: International Textbook Co., 1966.

Ridley, F. and Blondel, J. Public Administration in France. London: Routledge and Kegan Paul, 1969.

Schultze, Charles L. "How Can Government Needs for Policy Research be Better Met?" Roundtable Discussion at American Economic Association Meetings. Dallas (Dec. 1975).

Smith, Warren L. and Teigen, Ronald L., Eds. Readings in Money, National Income and Stabilization Policy. Homewood: R.D. Irwin, Inc., 1965.

Steiner, Peter O. "Public Expenditure Budgeting" in The Economics of Public Finance. Studies of Government Finance, pp. 241-357 and pp. 297-331. Essays by Alan S. Blinder and Robert M. Solow, George F. Break, Peter O. Steiner, Dick Netzer. Washington, D.C.: The Brookings Institution, 1974.

Sussman, Jeffrey. "An Empirical Analysis of the Policy Response to the Balance of Payments in West Germany: 1956-1971." A dissertation submitted to the Graduate Faculty in Economics, City University of New York, 1974.

Tobin, James. "An Essay on Principles of Debt Management" in Fiscal and Debt Management Policies. Edited by Commission on Money and Credit. Englewood Cliffs: Prentice-Hall, Inc., 1963. Reprinted in Monetary Theory and Policy, pp. 154-163. Edited by Richard A. Ward. Scranton: International Textbook Co., 1966.

_____. "Deficit, Decifit, Who's Got the Deficit?" in National Economic Policy. New Haven: Yale University Press, 1966. Reprinted in Readings in Economics, pp. 135-138. 7th ed. Edited by Paul A. Samuelson. New York: McGraw-Hill Book Co., 1973.

Waldo, Dwight. The Administrative State. New York: Ronald Press Co., 1948.

Wallace, Robert Ash. Congressional Control of Federal Spending. Detroit: Wayne State Univ. Press, 1960. Excerpts reprinted in Improving

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Congressional Control of the Budget, pp. 397-464. Hearings before the Subcomm. on Budgeting, Management & Expenditures of U.S. Senate Committee on Gov't. Operations. Part 2 (1,7 & 9 May 1973). Wash., D.C.: Gov't. Pr. Off., 1973.

Weidenbaum, Murray L., Laskins, Don and Marcus, Philip N. Matching Needs and Resources. Washington, D.C.: American Enterprise Institute for Public Policy Research, 1973.

Weidenbaum, Murray L. "The Shortcomings in Congressional Budget Making" in Controlling Federal Budget Expenditures. The Roles of Congress and the Administration. CED Symposium, pp. 12-14. Al Ullman, Roy L. Ash, Murray L. Weidenbaum & Ronald R. Davenport. Introduction by Emilio G. Collado. New York: Committee for Economic Development, Oct. 1973.

Wicksell, Knut. "A New Principle of Just Taxation." Translated from German by J.M. Buchanan in Classics in the Theory of Public Finance, pp. 72-118. Edited by R.A. Musgrave and T.T. Peacock. New York: St. Martin's Press, 1967.

Wildavsky, Aaron. Budgeting: A Comparative Theory of Budgetary Processes. Boston: Little, Brown & Co., Inc., 1975.

Wilmerding, Lucius. The Spending Power: A History of the Efforts of Congress to Control Expenditures. New Haven: Yale University Press, 1953.

Yanovsky, M. Social Accounting Systems. Chicago: Aldine Publishing Co., 1965.

Public Documents: Statutes

Accounting and Auditing Act of 1950. U.S. Code, vol. 31, secs. 65-67 (1970).

Antideficiency Act, Section 3679 of the Revised Statutes reprinted in The Bureau of the Budget, App. B, pp. 283-285. By P.F. Brundage. New York: Praeger Publishers, 1970.

Budget and Accounting Act, 1921. U.S. Code, vol. 31, secs. 1,2,11,13-24, 41-44, 46-50, 52-57 (1970).

_____. Reprinted in part in The Bureau of the Budget, App. B, pp.273-277. By P.F. Brundage. New York: Praeger Publishers, 1970.

Budget and Accounting Procedures Act of 1950, U.S. Code, vol. 31, secs. 2, 11,14, 16, 18a, 18b, 22-24, 65-67, 581-581c, 624, 719, 847 (1970).

Civil Service Act of 1/16/1883, Amendment to. Statutes at Large, vol. 70 (1956).

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Congressional Budget and Impoundment Control Act of 1974. Statutes at Large, vol. 88, part I (1974). U.S. Code, vol. 31 (1976).

_____ . U.S. Code and Administrative News No. 7 (15 Aug. 1974) 22 June to 19 July 1974.

Décret N° 56-601. Budget de l'état: mode de présentation (19 Juin 1956). Journal Officiel.

Décret N° 62-1587 portant règlement général sur la compatabilité publique. Journal Officiel (30 Déc. 1962). Reprinted in Finances Publiques: Documents, pp. 29-58. Edited by François Deruel. Paris: Librairie Dalloz, 1972.

Décret N° 70-1092 (25 Nov. 1970). Cited in La Rationalisation des choix budgétaires, p. 8. By H. Lévy-Lambert and H. Guillaume. Paris: P.U.F., 1971.

Department of Defense Appropriation Act of 1971. Statutes at Large, vol. 84 (1971).

Economy Amendments of 3 March 1933. Amendment to the Economy Act of 30 June 1932 contained in the Treasury Post Office Appropriation Act. Repr. in Federal Organization and Administrative Management, App., pp. 251-252. By Herbert Emmerich. University: University of Alabama Press, 1971.

Employment Act of 1946. Statutes at Large, vol. 60, part I (1946). U.S. Code, vol. 15, secs. 1021-1024 (1970).

Employment Act of 1946. Amendment to (1956). U.S. Code, vol. 15, secs. 1022, 1024; vol. 50 app. sec. 1916 (1970).

_____ . (1959). U.S. Code, vol. 15, sec. 1024 (1970).

_____ . (1967). U.S. Code, vol. 15, sec. 1024 (1970).

First War Powers Act of 1941 reprinted in Federal Organization and Administrative Management, pp. 247-248. By Herbert Emmerich. University: Univ. of Alabama Press, 1971.

General Appropriation Act of 1951. Statutes at Large, vol. 65 (1951).

Government Corporation Control Act of 1945. U.S. Code, vo. 31, secs. 841-869 (1970).

Legislative Reorganization Act of 1946. Statutes at Large, vol. 60, part I (1946).

Legislative Reorganization Act of 1970. Statutes at Large. vol. 84.

Loi du Décembre 1945 reprinted in Inventaire de la situation financière 1913-1946 établi sur les instructions de M. Robert Schuman. Paris: Imprimerie Nationale, 1946.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Loi N° 49-958 renforçeant le contrôle parlementaire des dépenses publiques (18 Juill. 1949). Journel Officiel (19 Juill. 1949).

Loi N° 53-707 rélatif au comtrôle de l'état sur les enterprises punliques nationales et certaines organisms ayant un objet d'ordre économique ou social (9 Aout 1953). Journel Officiel (11 Aout 1953).

National Security Acr of 1947. Statutes at Large, vol. 61, part I (1947).

Ordonnance N° 59-2. Loi organique rélatif aux lois de finances (Janv. 1959) J.O. (3 Janv. 1959). Reprinted in Finances Publiques: Documents by François Duruel, pp. 8-19. Paris: Librairie Dalloz, 1972.

Reorganization Act of 1939. Statutes at Large, vol. 53, part II (1939)

Reorganization Act of 20 December 1945 reprinted in Federal Organization and Administrative Management, pp. 254-255. By Herbert Emmerich. University: Univ. of Alabama Press, 1971.

Reorganization of 20 June 1949 reprinted in Federal Organization and Administrative Management, pp. 255-256. By Herbert Emmerich. University: Univ. of Alabama Press, 1971.

Reorganization Plan No. 2 of 1970. Statutes at Large, vol. 84, part II (1970).

Revenue and Expenditure Control Act of 1968. Statutes at Large, vol. 82 (1968).

Public Documents: Other than Statutes

France. Constitution de la République française. (1946). J.O. (28) Oct. 1946).

France. Constitution, 4 Oct. 1958, as amended 4 June 1960, 6 Nov. 1962, 30 Dec. 1963. Translated by French Embassy Press & Information pp. 312-330. Edited by Amos J. Peaslee. Prepared by D.P. Xydis. The Hague: Martinus Nijhoff, 1968.

France. Cour des Comptes. Rapport au Président de la République 1971.

_____. Rapport au Président de la République suivi les résponses des administrations. Années 1960 et 1961. Extrait du J.O. du 6 Juin 1963. Doc. Admin. N° 9.

_____. Rapport au Président de la République suivi des résponses des administrations. Part I. "Les opérations du budget et du Trésor en 1971." J.O. (1973).

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

France. Rapport sur le projet de loi portant règlement définitif du budget de 1967.

_____. Rapport su la projet loi portant règlement définitif du budget de 1969. Déclaration générale de conformité sur la gestion 1969. Part II.

France. Ministère de l'Économie et des Finances. "Évolution du budget de la état de 1947 à 1972." Statistiques et études finçières, numéro spécial, 26e année (1974).

_____. "Les mésures budgétaires d'inspiration conjoncturelle entre 1966 et 1971" (Avril 1972). Typewritten.

_____. Projet de loi portant règlement définitif du budget. Années 1960 à 1971.

_____. "Quelques répéres sur l'évolution du budget de l'état de 1954 à 1969." Problems économiques, no 1.136 (9 Oct. 1969): 3-6.

_____. Direction du Budget. Réforme de la présentation budgétaire. Paris: Imprimerie Nationale, 1970.

_____. Service de l'Information. Le projet de budget pour 1972. Conférence de presse de M. Valéry Giscard d'Éstaing, Ministre de l'Économie et des Finances (15 Sept. 1971).

_____. Ministère de Finances. "Annuaire de statistiques finançières 1930-1959." Statistiques et études finçières no 144 (Déc. 1960).

_____. Inventaire de la situation financière 1913-1946. Établi sur les instructions de M. Robert Schuman, Ministre des Finances. Paris: Imprimerie Nationale, 1946.

_____. "Rapport sur la situation financière présenté à Ministre des Finances et des Affaires Économiques en exécution de sa décision du 30 Sept. 1958" by Jacques Rueff. Statistiques et études financières no 121, 11e ann. (Janv. 1959).

France. Ministère des Finances du Budget et des Affaires Économiques Inventaire de la situation financière. Mise à jour en 1951 de l'Inventaire de 1946. Paris: Imprimerie Nationale, 1951.

France. Parlement. Assemblée Nationale. "Ouverture et annulation de crédits sur l'exercise 1954 et ratification de décrets." Débats de 2e Lég, vol. 32, 1re séance du mars 1955.

_____. Commission des Finances de l'Assemblée Nationale. Rapport de la Commission des Finances de l'Assemblée Nationale sur le projet de la loi finances pour 1960. Documents de l'Assemblée Nationale, Annexe 328 (20 Avril 1961). Reprinted in Finances Publiques: Documents, pp. 19-22. By François Deruel, ed. Paris: Libraire Dalloz, 1972.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

France. Président. Rapport de la Commission Intermimisterielle. Chargée d'examiner les suite à donner au Rapport public de la Cour des Comptes. Arrête interministeriel du 1er Sept. 1969. Paris: Imprimerie Nationale, 1970.

France. Secrétariat Général du Gouvernement - Direction de la Documentation. "Les Techniques de préparation et de contrôle du budget de l'état par Pierre Lequéret. Notes et études documentaires. La Documentation française nos 3965-3966 (26 Fév. 1973).

United Nations. Department of Economic Affairs. Budgetary Structure and Classification of Government Accounts. New York: United Nations, Feb. 1951.

United States. House. Committee on Education and Labor. "Statement of Leon H. Keyserling, President, Conference on Economic Progress" in Equal Opportunity and Full Employment, pp. 11-64. Hearings before the Subcomm. of Equal Opportunities on H.R. 50, Part I. Wash., D.C.: Gov't. Pr. Off., 25 Feb. 1975.

_____ . Document No. 91-436. 91st Cong., 2d sess. (1970).

_____ . Document No. 92-159. 92nd Cong., 1st sess. (1971).

United States Congress. Joint Economic Committee. Subsidy and Subsidy-like Programs of the U.S. Government. Materials prepared for J.E.C. Joint Committee Print. 86th Cong., 3d sess.

_____ . Joint Study Committee on Budget Control. Interim Report. Improving Congressional Control over Budgetary Outlay and Receipt Totals. H.R. Report No. 93-13 (7 Feb. 1973) repr. in Improving Congressional Control over the Budget, pp. 174-207. A Compendium of Materials compiled by staff of Subcomm. on Budeting, Management & Expenditures of U.S. Senate Comm. on Gov't. Operations (27 Mar. 1973) Committee Print.

_____ . Recommendations for Improving Congressional Control over Outlay and Receipt Totals. A Report of the Joint Study Comm. on Budget Control (18 Apr, 1973).

_____ . Senate. Committee on Gov't. Operations. "An Examination of Recommendations for Improving Congressional Control over Budgetary Outlay and Receipt Totals" by Louis Fisher (14 May 1973) in Improving Congressional Control of the Budget, pp. 316-323. Hearings before the Subcomm. on Budgeting, Management & Expenditures, 93rd Cong., 1st sess., Part II (1,7,9 May 1973).

_____ . "Backdoor Spending Authority" by Allen Schick in Improving Congressional Control over the Budget, pp. 293-302. A Compendium of materials compiled by staff of Subcomm. on Budgeting, Management & Expenditures (27 Mar. 1973).

_____ . "Five-Year Budget Projections" by C.W. Harris with research by W. Oleszak of Library of Congress in Improving Congressional

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Control over the Budget, pp. 252-261. A Compendium of Materials compiled by staff of Subcomm. on Budgeting, Management & Expenditures (27 Mar. 1973).

_____. "Statement of Hon. Elmer R. Staats, Comptroller General of the U.S. before the Joint Study Committee on Budget Control" (7 Mar. 1973) in Improving Congressional Control over the Budget, pp. 208-216. A Compendium of Materials compiled by staff of Subcomm. on Budgeting, Management & Expenditures (27 Mar. 1973).

_____. Committee on Gov't Operations and Committee on the Judiciary. "Statement of Hon. Elmer B. Staats, Comptroller General of the U.S. accompanied by Paul G. Dembling, General Counsel" in Impoundment of Appropriated Funds by the President, pp. 94-114, Joint Hearings before the Ad Hoc Subcomm. on the Impoundment of Funds & the Subcomm. on Separation of Powers on S. 373 (30 & 31 Jan & 1, 6 & 7 Feb. 1973).

_____. Committee on the Judiciary. "Foreword" by Sam J. Ervin, Jr. in Comptroller General's Opinion of Legality of Executive Impoundment of Appropriated Funds, pp. III-V. Prepared for Subcomm. on Separation of Powers. Committee Print. Wash., D.C., Gov't. Pr. Off., 1974.

_____. "Statement" by Sam J. Ervin, Jr. in Executive Impoundment of Appropriated Funds. Hearings before the Subcomm. on Separation of Powers (23, 24 & 25 Mar. 1971), pp. 1-4. Wash., D.C.: Gov't Pr. Off., 1971.

United States. Constitution. Includes unratified amendments. Prepared by Comm. on the Judiciary. Wash., D.C.: Gov't. Pr. Off., 1974.

United States. Department of Treasury. Fiscal Service. Bureau of Accounts. Combined Statement of Receipts, Expenditures & Balances Of the U.S. Government for Fiscal Year Ending 30 June 1971.

_____. Bureau of Governmental Financial Operations. United States Government Consolidated Financial Statements: Prototype Report. (1976).

United States. Federal Reserve System. Board of Governors. The Federal Reserve System. Wash., D.C., F.R.S., 1967.

United States. General Accounting Office. Annual Report of the Comptroller General of the U.S. 1971.

_____. Financial & General Management Studies Division. "Implementation of the Budgetary and Fiscal Information Provisions of the Legislative Reorganization Act of 1970" (7 Mar. 1973) repr. in Improving Congressional Control over the Budget, pp. 322-326. A Compendium of Materials compiled by staff of Subcomm. on Budgeting, Management & Expenditures (27 Mar. 1973).

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

United States. General Services Administration. Office of the Federal Register. National Archives and Records. U.S. Government Manual 1974-1975 (1974).

United States. Library of Congress. Congressional Research Service. Budget Concepts and Terminology: The Appropriations Phase by Louis Fisher. H.J. 2005 U.S., 74-210 GGR (21 Nov. 1974).

_____. Comparative Data on the Federal Government Budget Estimates Originally Submitted to Congress and the Final Budget Conditions Realized, Fiscal Years 1921-1974 by George K. Brite. Rev. (29 Jan. 1973), repr. in Improving Congressional Control over the Budget, pp. 355-358. A Compendium of Materials comp. by staff of Subcomm. on Budgeting, Management & Expenditures of U.S. Senate Comm. on Gov't. Operations (27 Mar. 1973).

_____. The Federal Budget Process by George K. Brite and Harriet J. Halper. Rev. (29 Dec. 1972) and repr. in Improving Congressional Control over the Budget, pp. 570-620. A Compendium of Materials comp. by staff of Subcomm. on Budgeting, Management & Expenditures of U.S. Senate Comm. on Gov't. Operations (27 Mar. 1973).

United States. President. Economic Report of the President. Transmitted to Congress January 1962. Repr. in Readings on Money, National Income and Stabilization Policy. Edited by Warren L. Smith & Ronald L. Teigen. Homewood: R.D. Irwin, Inc., 1965.

_____. Economic Report of the President. Transmitted to Congress February 1963 together with the Annual Report of the Council of Economic Advisers.

_____. Economic Report of the President. Transmitted to Congress February 1971 together with the Annual Report of the Council of Economic Advisers.

_____. Economic Report of the President. Transmitted to Congress January 1972 together with the Annual Report of the Council of Economic Advisers.

_____. Economic Report of the President. Transmitted to Congress January 1976 together with the Annual Report of the Council of Economic Advisers.

_____. Executive Order No. 11541 (1 July 1970). U.S. Code Annotated, vol. 31. St. Paul: West Publ. Co., 1976.

_____. Executive Order No. 11647. U.S. Code Annotated, vol. 31. St. Paul: West Publ. Co., 1976.

_____. International Economic Report of the President. Transmitted to Congress March 1975 together with the Annual Report of the Council on International Economic Policy.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

United States. Report of the President's Commission on Budget Concepts. Wash., D.C.: Gov't. Pr. Off., Oct. 1967.

_____ . Bureau of the Budget. First Report to the President of the U.S. by Director of the Budget. Transmitted report of the Chief Coordinator & Chairman of the Coordinating Boards establ. by Ex-exutive Order for the coordination of the routine business of the Gov't. Wash., D.C.: Gov't. Pr. Off., 1 July 1922.

_____ . Second Annual Report of the Director of the Bureau of the Budget to the President of the U.S. Wash., D.C.: Gov't. Pr. Off., j July 1923.

_____ . Office of Management and Budget. Appendix to the U.S. Budget Fiscal Year 1971.

_____ . The Federal Financing Bank and the Budget by Robert W. Kilpatrick & Thomas J. Cuny. Technical Staff Paper BRD/FAB 76-1 (26 Jan. 1976).

_____ . Special Analyses: Budget of the U.S. Government F.Y. 1977.

_____ . (or Bureau of Budget). United States Budget F.Y. 1923 through 1977.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.