

Development of Modern Budgeting

EXECUTIVE SUMMARY

The budget is one of the most significant policy documents of any administration, and BCPs are one of the principal decision vehicles used in the development of the budget. Yet, the current process used for assembling the Governor's Budget proposal is not automatic or technical, nor was it always used. It was developed in this century and built into the Constitution to achieve certain social objectives and institutional relationships. California's intention in adopting the specific budget process which it did reflects directly on the issue of whether or not BCPs should be considered confidential documents.

California has adopted and specified in its Constitution an executive budget process, which was proposed by Progressive Era reformers in the early part of this century. This movement was widespread and had well articulated objectives; and it included such advocates as Woodrow Wilson, William Howard Taft, and the noted historian, Charles Beard. It received extensive attention from political scientists, and entire issues of the *Annals of the American Academy of Political and Social Science* were devoted to this subject. The movement reacted against what has been described as the "bureaucratic feudalism" of legislatures during the late Nineteenth and early Twentieth Centuries, to the dominance of political machines at the local level, to waste and inefficiency, to the lack of leadership and accountability, to government structures that hid more than they revealed to the public, to the dominance of special interests, to the lack of goals and the ability to implement

them, and, mostly, to the inability of government to respond to the immense need for new and expanded services in a rapidly changing society characterized by industrialization, urbanization, technological advancements, the development of a national and international economy, population growth, and large scale immigration.

Both in California and at the federal level, budgeting was the domain of interest groups, department heads, and ranking committee members. Norms of reciprocity and logrolling insured the survival of appropriations which had cleared individual committees. The executive, the Governor or the President was a supporting actor in this drama. He did not propose a budget or defend it. Most departments had separate appropriation bills which passed at different times. No effort was made to relate these bills to each other, to projected revenues, or to anything so vague or tenuous as larger social objectives or policy. This small world of sheltered access developed massive conflicts of interest. Accounting methods varied from one agency to another, reporting was haphazard, and auditing infrequent. No one knew exactly how much the treasury would take in or spend in the coming months. Appropriations were specified in excessive detail which restricted the flexibility necessary for efficient or successful administration.

Central to many of the reforms of this era was the concept of the responsible executive. This can be seen in efforts to revise city charters substituting a strong mayor for complex and confusing layers of independent boards and commissions with overlapping or vague responsibilities. A hierarchy that worked, one that was visible, had stated objectives, was democratically elected, could achieve results, and be accountable for its actions was considered preferable to more egalitarian forms which didn't work or left society prey to special interests. These concepts were taken

largely from ideas about business management prevalent at the time, from the executive centered governments and budget processes of Europe, and came to be known as the executive budget movement.

An executive budget is characterized by: its unity encompassing all of the activities of government; its comprehensiveness including all revenues and all expenditures for a defined fiscal period; its use of a small number of standard expenditure categories to provide control, yet allow the executive flexibility in administration; and, most importantly, it is developed and proposed by a single executive, assisted by staff experts, to accomplish clearly stated objectives. The integrity of the executive branch further depends, according to the principals of this movement, upon agency heads supporting the budget. The only alternative to this is for them to leave the government. A divided executive would not be an effective one.

California adopted some budget reforms under Governor Hiram Johnson's administration in 1911. The federal government adopted an executive budget process in 1921. California then adopted a similar model in 1922, but went beyond it in two respects. First, the California Constitution requires the Governor's Budget to be balanced. Second, it requires the Governor's Budget to be accompanied by a corresponding Budget Bill which the chairperson of the fiscal committee in each house of the Legislature is required to introduce. This latter requirement facilitates tracking, since any amendment to the initial Budget Bill in either house is, in effect, a change to the Governor's Budget. It also makes the Governor's Budget the starting point for legislative deliberations, and, hence, the agenda for the discussion of how the state's resources will be used in the next year.

THE DEVELOPMENT OF MODERN BUDGETING

Governments have collected taxes and utilized the resulting proceeds to support armies and civil administration even before the advent of money (Webber and Wildavsky, "A History of Taxation and Expenditure in the Western World", 1986). However, the roots of contemporary budgetary practices can be traced to the development of the English Constitution. The Glorious Revolution of 1689 established the supremacy of Parliament over the monarchy. Thereafter, at least in principal, the King, and later the Prime Minister, could request certain taxes or various expenditures, but only Parliament could authorize them.

Change, though, occurred quite slowly, with marked disparities between principal and practice. Parliamentary authority extended to what it felt essential to, and what it was able to (given the fiscal machinery of the day) control. Budgetary control at first extended only to the armed forces, to prevent the King from assembling a force large enough to unseat Parliament. For example, Parliament controlled appropriations for the army and for ships in port, but not for ships at sea (Hill, "A History of England: Volume 5: A Century of Revolution", 1961). Moreover, complete budgets were not written, budgetary control was not exercised annually, there were no controls on what was actually spent for these purposes, record keeping was haphazard, and there was no reporting or auditing (Balfour, "On the Budgets and Accounts of England and France," "Journal of the Royal Statistical Society of London", 1866).

The expansion of budgetary control over the rest of the military and into non-military areas during the Eighteenth Century was slow and inconsistent. However, as Parliament became more accustomed to allocating funds, some modern concepts and terminology began to develop. At first,

containers used for carrying came to shape our modern vocabulary. The ancient Romans used a woven basket called a *fiscus* to collect taxes. Later the name was specifically applied only to these treasury baskets and then to the officials who used them. By the start of the middle ages, the treasury of a kingdom was known as the *fisc* (Webber and Wildavsky). Similarly, from the Latin *bulga* (to bulge) came *bouge* in Middle French, meaning a bag; or *bougette*, the diminutive. This term crossed the Channel sometime between 1400 and 1450 and "bougett" became a standard part of the late Middle English vocabulary, usually referring to a leather bag or satchel ("Oxford English Dictionary", 1989, and Random House, "Unabridged Dictionary", 1987).

In the early Eighteenth Century, the plans of expenditure which the ministers of the Crown carried to Parliament were called the statements or schedules of accounts. The large leather bag in which they were carried was called the budget. In 1733 Robert Walpole, Whig Prime Minister under George I, began referring to the inauguration of the discussions on the Crown's proposed expenditures as the "opening of the budget." This convention continued, and gradually the term began to be used to refer to the contents of the bag, rather than the bag itself. By 1800 this usage was universally accepted in England ("Oxford English Dictionary"; Buck, "The Budget in Government Today, 1934; Stourm", "The Budget", 1917; Besson, "Le Controle des Budgets en France et l'Etranger", 1899.)

The Nineteenth Century. Most of the policies, procedures, and technical practices that we associate with modern budgeting were developed during the Nineteenth Century. The first major changes occurred in France. For over half of this century English fiscal practices continued to be a patchwork of traditions added at different periods of time,

evolving only slowly toward the modern world (although the fact that the Hanover kings, the three Georges, did not speak English had given a tremendous boost to the development of the cabinet and its authority to govern, just as their mishandling of the American colonies increased the power of the House of Commons in the outcry that followed the American Revolution). Meanwhile, the French had initiated a conscious effort to make government rational. Following the lead of the Philosophes during the Age of Reason, and eager to replace the medieval traditions of the ancien regime, the French introduced sweeping changes to their government and society during the reign of Napoleon. Their budgetary efforts strove to achieve the logic, utility, and precision of the Napoleonic Code of Laws and the metric system.

As with the English, except with different motives, Napoleon's first concern was with mastering the military budget. To obtain better information on and control expenditures, he established a Corps des Comptes. The general who headed this corps became, in effect, the first auditor general. In 1803 France adopted the English word budget, budgetary procedures, and expanded on the English technical capabilities and practices as part of an effort to obtain greater control over all expenditures, both military and non-military. The French achievements were remarkable, not only because they were unprecedented but because they were accomplished in such a short period of time. Moreover, these innovations not only survived Napoleon but were refined during the Second Republic and Second Empire.

By the 1860s France had developed a uniform accounting system that applied to all departments and all units within departments, a standard fiscal year, conventions on how long encumbrances can be held open after the close of the fiscal year, a requirement for departments to explain

programmatically and account fiscally for all funds which have been allocated to them, standard year-end closing procedures and year end reports comparing appropriations and expenditures, a system of audits, the reversion of unexpended funds, and record keeping by fiscal year. Moreover, their budgets were written and considered all revenues and all expenditures for the fiscal year. Consequently, the budget was considered to be one of the government's major policy documents. The control of expenditures was further assured through the scheduling of expenditures by different departments, and by sub-categories within departments. Indeed, claims that exceeded any category would not be honored for payment.

French budgetary procedures encompassed steps which we would identify today as analytical. For example, in calculating the amount required for provisions for soldiers, the budget considered the number of soldiers to be rationed during the year, deducted the number of soldiers projected to be sick or absent, the cost of each ration to be used, and multiplied these all together to achieve the total funding required. France prided herself on being able to act promptly during an emergency because funds were monitored and controlled. Moreover, French officials realized that they had the mechanisms for developing and implementing public policy in a large industrializing state. Some contemporary expressions of this thinking are, Casimir Perrier, "It is only with money that great things are done;" and, the Baron Louis, "Make good financing and I will make good policy. Good finances are the powerful auxiliary of good policy." (Balfour, Stourm, and Besson).

In contrast, English budgetary practices of the 1860s lacked not only many of the technical features of the French system but also had not yet adopted the emphasis on consistency and universality of application that was central to the French

innovations. For example, although most funds were now appropriated by Parliament, there was no single document reflecting all governmental expenditures, no comparison of appropriations and actual expenditures, lump sum appropriations were widely used, different accounting methods were used by various departments--and within departments, major sums were unexplained and unaccounted for, records were not kept on a fiscal year basis, and surpluses were rolled into the next fiscal year. Further, England had a rising problem of debt resulting from its expanding empire and related military activities.

During the middle of the Nineteenth Century the Liberal Party began to become prominent and eventually assumed power. Their Chancellor of the Exchequer, and later Prime Minister, William E. Gladstone, was opposed to a large debt and large expenditures for an empire and military forces, preferring instead to keep taxes low to unburden business, and concentrate expenditures on domestic activities to stimulate commerce, such as the infrastructure, and expand public education. He, and other reformers of that era, viewed the French budgetary techniques as a promising way to control English finances. In 1861 England created the Public Accounts Committee in Parliament, and, in 1866 the offices of Comptroller and Auditor General. During the last third of the century Gladstone implemented a series of reforms which replaced the opportunistic practices of the past with the systematic procedures which were taking root on the Continent. Among these Gladstone emphasized the notion of balance. This principal became not only a technical feature of his budgets, but an ethic of government, which, when added to the notions of efficiency and parsimony, was ideally suited to the industrial age. It is fitting that among Gladstone's legacies is the survival of his phrase, "the power of the purse." (Einzig, "The Control of the Purse", 1959; and

Webber and Wildavsky).

Thus, by the end of the Nineteenth Century what Wildavsky calls the "great norms that provide a framework for budgeting in modern governments"--unity, annuality, balance, comprehensiveness, and control--had emerged in Europe. Fiscal procedures there had developed into structures, a century of innovations had settled into institutional relationships. The picture at that time was quite different in the United States.

The Early American Experience. Most American colonization occurred after the Glorious Revolution of 1689, and the colonists carried the notion that control of finances should be vested in the legislature with them. Closely allied with this concept was the idea, expressed in Locke's Second Treatise on Civil Government, that property rights existed prior to the formation of the state, in the state of nature, and could not, therefore, be abridged by the state. Thus, taxation was only legitimate to the extent that the people's representatives had given their consent. Since the colonists wanted English protection but not English rule, colonial legislatures were more zealous than their English counterparts in controlling executive expenditures.

Wildavsky concludes that the extraordinary efforts of yankee ingenuity shown by colonial legislatures to control royal governors gives this period "its peculiar stamp." ("The New Politics of the Budgetary Process", 1988). Salaries were made dependent upon annual appropriation, most sources of revenue required reauthorization at stated times, appropriations were specified by object and amount, special language prescribed what could and could not be done, and for how much, and unexpended balances were required to revert to the colonial treasury. In addition, colonies elected independent treasurers and developed other ways to control

the actual allocation of funds. The English response of the Stamp Act, duties on tea, and other measures was designed, among other things, to provide independent sources of income for English officials in America.

This absolute insistence on legislative direction of finance easily survived after the Revolution. Congress specified line-items of expenditure in great detail, limited transfers from one line-item to another, specified the number of employees in a department, their exact remuneration, and sometimes their names. Congress even added language to various appropriations, specifying how the money should be spent. Funds for the army and navy, however, were appropriated as lump sums, based on their insistence that they could not operate with restricted budgets. In addition, Congress was not able to monitor transfers or the use of surpluses, much less enforce the prohibitions or specifications it had established through budget act language. Over time most departmental appropriations became regular and customary.

The Norm of Balance. During the period spanning the presidencies of Washington and Jackson, American politics was dominated by the conflict between two principal coalitions. The Federalists (and later the Whigs) supported an active government to promote commerce, build the infrastructure necessary for economic activity, and develop the financial institutions necessary to support economic growth. Opposing them were the Republicans (later the Democratic Republicans, and then the Democrats) who believed that taxes should be kept low and government activity kept to a minimum so that small farmers and tradesmen could pursue their independent lives free from the burdens of government, which, they believed, inevitably uses its authority mainly to benefit the wealthy and privileged classes.

One of the ways this conflict came to be resolved over time was through the norm of the balanced budget. The Jeffersonians were essentially small businessmen, and, therefore, not opposed to the idea of internal improvements designed to stimulate commerce. Their strong opposition was to the possibility of high taxes or a large debt. Thus, historic compromises were developed during this period, where it was gradually accepted that taxes would be kept low and debt substantially avoided, while the small government could use the proceeds it had to build an internal infrastructure and otherwise stimulate business. The norm of a balanced budget gradually solidified into a practical limitation on governmental activity that lasted, for the most part, from the early 1800's until the 1960's.

It is noteworthy that this result was achieved in the context of a small pre-industrial nation, with a small government and budget. Rather than developing the technical capabilities to control spending, as was occurring in Europe at this time, the United States controlled it by keeping the enterprise small. Congress had no mechanism to insure that its will was being implemented without modification, that amounts were spent for the categories specified and not exceeded, or that it even understood the overall financial condition of the country at any given time. However, since there was general agreement on the scope and magnitude of governmental activity, and relatively few resources to expend, things did not get out of hand. This was undoubtedly helped by the fact that both the country and its government were small enough so that the impact of governmental spending was readily identifiable. (Wildavsky, "The New Politics of the Budgetary Process").

The Civil War and Its Aftermath. The norm, and later the ethic, of balance not only achieved an accommodation among disparate social forces in the young nation, but

helped to form its institutional relationships as well. The period before the Civil War is marked by a relative balance of Congressional and Presidential power. Congress was able to limit the size and scope of government by controlling taxes and authorizing its major programs and activities. The President and the executive branch assumed increasing control over the day to day activities of government, proposed and initiated new ones, and started to become a focal point, at least during some periods, for the expression of national ideals and goals. This delicate balance of institutional power was subject to a series of major disruptions starting with the Civil War, which would last into the next century.

The United States was ill-prepared for what many historians believe is the single most important event in American history. Neither side planned it, and when it started, almost no one thought it would last more than a few months. In the wake of the unfathomable situation which followed, and its imminent threat to national survival, Lincoln asserted the position that whatever was required for national defense had to be approved. Congress could approve the appropriations later. Arguing that there was "no adequate and effective organization for the public defense," he began ordering the Treasury to spend unappropriated funds for a variety of military requisitions. Similarly, departments freely incurred deficiencies, and used unexpended balances for purposes not previously contemplated. Faced with no choice in the matter, Congress cooperated. Moreover, it authorized all that it had previously denied: lump sum appropriations, spending in excess of appropriations, transfers, revolving funds perpetuated by reimbursements, and more. To keep track of at least some of these developments, the House of Representatives created the Appropriations Committee out of the Committee on Ways and Means, which previously had

responsibility for both revenue and expenditures. (Wildavsky, Ibid.)

This great expansion of executive power was dramatically reversed after the Civil War. The impeachment of Andrew Johnson--and his narrow survival by one vote in the Senate--created, inaugurated, and was the symbol of an upheaval of existing forces and a major realignment of power in favor of Congress which would last for the remainder of the century. (White, "The Republicans"). At first, during the era of Reconstruction, our government resembled a modified parliamentary system, with the radical Republicans functioning as the cabinet.

This imbalance in favor of Congress worked as long as there was strong and effective leadership within that body. However, after the compromise which resolved the disputed 1876 Tilden-Hayes election in favor of the Republican, Rutherford B. Hayes, and also ended Reconstruction, power within Congress became increasingly fragmented. This coincided with the reduction of political competition in Congressional districts, as political machines (such as the Tweed Ring in New York) began to develop in American cities, and the South was returned to its one party status. Assured of greater stability and longevity, members of Congress strove to carve out major areas of influence for themselves and benefits for their immediate supporters. Larger national and regional interests were submerged.

In 1885 the House of Representatives began to strip the Appropriations Committee of its authority to review and report out bills falling into the domain of other committees. The prior arrangement threatened, in Wildavsky's words, "the smooth flow of patronage" (Wildavsky, *The New Politics of the Budgetary Process*). At first constituency oriented legislation was given to other committees composed of

spending advocates, including items such as spending for rivers and harbors and agriculture. This trend soon advanced into other areas--army, navy, diplomacy, and Indian affairs. Ultimately, more than half of all appropriations, including the most controversial, were effectively removed from Appropriations Committee jurisdiction. (Ibid). These changes became "a symbol of dysfunctional fragmentation in Congress and of waste and mismanagement, and would serve as a rallying point in the creation of an executive budget focused around presidential leadership." (Stewart, "The Politics of Structural Reform", 1985, in Wildavsky).

Congressional power was diffused in policy arenas as well, culminating in the revolt against Speaker Joseph Cannon after the turn of the century. Commentators of this era, including (then) political scientist Woodrow Wilson, increasingly described committee chairmen as exercising the powers of feudal lords. This power was exercised not only over legislation, but over the day to day activities of government agencies as well. Committee chairmen routinely directed bureaus in their decision-making responsibilities regarding the award of patents, the scope and scheduling of public works, and the implementation of laws. Public employees in this era prior to civil service reform saw their allegiance primarily to the party rather than to the public, and freely cooperated in these actions. (White). In fact, their future appropriations depended upon it.

Although the Appropriations Committee tried to restrain spending, it was almost always overruled either in the House or by the Senate. Consequently, spending increased substantially during this period. As expenditures rose, Congress looked for additional sources of revenue. The parochial interests of committee chairmen, governmental bureau chiefs, and their clientele were at this time temporarily merged with those of social reformers. In 1894

Congress passed and President Cleveland signed the first income tax bill. The following year in *Pollack v. Farmers Loan and Trust Co.* the United States Supreme Court declared the measure to be unconstitutional. Between that time and the ratification of the Sixteenth Amendment in 1913, the Federal Government was deficient approximately half the time.

American government, as viewed by Progressive era reformers, faced several problems--mounting debt, the fragmentation of power, lack of leadership, unmet social needs and public services in a rapidly growing and developing society, the absence of public accountability and public control, the undue attention paid to special interests at the expense of the larger national interest, and outright corruption. To address these problems the Progressives proposed a striking array of reforms including the secret ballot, the initiative, referendum, and recall, civil service reform, direct election of senators, revisions to city charters and state constitutions, competitive bidding for contracts, uniform accounting and auditing practices, and a concept and series of practices for financial planning and administration which came to be known as the executive budget movement.

The Executive Budget Movement. The problem wasn't that American government at all levels lacked a budgetary process. It was that the process was characterized by bureaucratic feudalism. No one knew exactly how much the government was taking in or how much it was spending. There was no mechanism for addressing goals or priorities. Important needs for public services in a rapidly growing and industrializing society were not being met. Worse yet, there was little accountability for what happened. Policy and budget making were so fragmented that virtually no one seemed responsible for the overall fiscal picture. Special

interest groups and agency bureau chiefs worked with committee chairmen and ranking members to draft appropriation bills. These amounts or their intended uses were not reviewed or even known by the chief executive. Almost every agency had a separate appropriation bill, which was passed by the legislature at a different time, sometimes authorizing funds for different periods. Agencies used different accounting techniques, and an audit was an infrequent event. Conflicts of interest were massive, and illegal activities were all too common.

Central to many of the reforms of this era was the concept of the responsible executive. This can be seen in efforts to revise city charters, substituting a "strong mayor" for complex and confusing layers of boards and commissions with overlapping or vague responsibilities. Essentially, the reformers were adopting the business practices of the day, which may have been why their ideas were so readily accepted. Responding to the rapid growth of industry after the Civil War, and aided by technological achievements such as the completion of the transcontinental railroad, businessmen began to grapple with the problems of a national economy. Their principal organizational solution was the introduction of more sophisticated formal hierarchies into corporations, with identifiable executives who were both empowered to get the job done and accountable for the results. These concepts were developed into a systematic theory of organization known as scientific management (see Taylor, "Scientific Management", 1899).

Taking the developing American preference for executive authority and applying it to budgeting, the reformers found their instinct readily reinforced by the executive driven budgetary systems they looked into in Europe. In England, for example, the government (i.e. the cabinet) formulated a financial program and introduced it to Parliament.

Significantly, only the government could propose funding. Individual members of Parliament could not initiate such proposals, nor could they propose augmentations to the ones made by the government. Their only options were to reduce the amounts requested, or change the government.

The first principal of this movement, therefore, became that budgets should be developed and proposed by the executive to accomplish clearly stated objectives for which he would later be held accountable by the voters. These executives would be assisted by expert staffs who would apply scientific principles to the development of each budget. Further, for fiscal clarity, public visibility, and to make them policy instruments, budgets would encompass not only all expenditures, but also all revenues. Budgets were to be unified, comprehensive, balanced, and annual, as they were found both in Europe and in American corporations.

In addition, they were to provide firm controls without unduly restricting the executive. Budget reformers objected strenuously to the excessive numbers of categories and subcategories--none of which were standard--found in appropriation bills at that time. Instead, they proposed the development of a smaller number of standard categories which would provide limitations on discretionary activity, as well as accountability, while leaving the executive areas of flexibility. This would also aid analysis, and, through the use of comparative tables, summaries, and budget messages, inform the public of the governments policies and objectives. The development and implementation of the executive budget was to be aided by a uniform accounting system, the establishment of a comptroller, and protocols for both reporting and auditing.

As Wildavsky indicates, "agency personnel were to be completely subservient to the decisions" of the executive

("The New Politics"). Replying to a charge that it would be difficult for agency heads to support estimates changed by the President, two of the leading reformers claimed:

This is no reason of substance whatever. The heads of departments are and should be loyal to the Administration, and should...support the view which the President has adopted...in respect to the budget. They will have no difficulty in so doing. If any head of a department does, then his place is not in the Cabinet. (Cleveland and Buck, "The Budget and Responsible Government," 1920).

The scope of this movement was extensive, attracting the noted historian, Charles Beard, and receiving frequent attention in *Annals of the American Academy of Political and Social Science*. The case for an executive budget was convincing to William Howard Taft who established the Commission on Economy and Efficiency in 1911, composed of several reformers, and headed by Frederick A. Cleveland. Its task, to make the case for an executive budget, was contained in its report completed the following year, "The Need for a National Budget." Taft presented the idea to Congress arguing that government should operate economically in order to do more for the people with available resources. Jealous of its prerogatives, and fearing the expansion of executive power, Congress rejected the plan.

The Executive Budget Comes to California. Budget reform initially was established, not at the national, but at the local level. This was partially because the public had more direct control over local activities--especially as Progressive Era reforms were implemented--and partially because of overwhelming need. The mass immigration from eastern and southern Europe to the United States between 1880 to 1920, coupled with increasing industrialization and urbanization,

created unprecedented demands upon local governments for housing, education, health care, transportation, and the development of a physical and civil infrastructure to support all related commerce and services. The political machines which dominated local government at that time did serve certain functions in an immigrant population, by personalizing contact and tying disparate parts of society together. However, cities paid a steep price for this service in theft, obfuscation, and lack of progress.

Many Progressive era reforms were aimed directly at these machines--civil service, competitive bidding, strong mayor forms of government, standardized accounting, reporting, and auditing practices, and the executive budget. Later studies would show that in places where an executive budget was used, expenditures would grow more slowly than in other places and would be less oriented toward building construction, leaving more funds for other purposes. (Cleveland, "Some Results and Limitations of Central Financial Control," Municipal Research, 1917). The National Municipal League called for the adoption of executive budgets by cities in 1899. Shortly thereafter, New York City created the Bureau of Municipal research to prepare the technical and policy substructure required for such an undertaking, and hired Frederick Cleveland to head it. In 1907 New York became the first city to begin implementing the executive budget. This movement soon spread to many other cities and states.

The situation in California at the time paralleled the fragmentation of the federal government. Although the Governor possessed the veto power (and like many new states California adopted the line-item veto first used by the Confederacy), it was impossible to know just how much had been appropriated until all the expenditure bills were signed. Moreover, the Governor was limited to reacting to what the

Legislature had done. He did not initiate a plan of expenditures or defend it as bills were being considered.

To have their appropriation bills passed, each department head was required to be present at the Legislature every day for the four months it was in session. These administrators were not usually told in advance when their particular bill would be brought up for consideration at any stage of the legislative process. This made them constantly available to the Members who could ask for favors. Further, at this time each institution--prison and hospital--was treated as a separate department. The heads of these institutions were frequently asked to buy coal or supplies from a certain individual, or to make certain hires, and they cooperated in order to keep their appropriation bills alive and moving through this process (The Annals). Governor Young described the situation in 1909 later in a speech before the Commonwealth Club of San Francisco in 1926:

When I first entered the Legislature in 1909, there was little short of chaos as far as any orderly provisions for State expenditures were concerned. There had been no audit of state finances for over twenty years. The finance committees of the two houses were scenes of a blind scramble on the part of the various institutions and departments of the state in an endeavor to secure as large a portion as possible of whatever money might happen to be in the treasury. Heads of institutions encamped night after night in committee rooms, each alert for his own interest regardless of the interests of other institutions. Logrolling and trading of votes on appropriation bills was the common practice among members of the Legislature. (Buck, "Public Budgeting", 1929).

In 1910 California elected Hiram Johnson, a strong advocate and implementer of Progressive reforms, as Governor. Upon

receiving appropriation bills after his inauguration in 1911, he supposedly asked for the justification for the amounts contained therein. Finding more politics than analysis, he created the Board of Control that year to advise him on the fiscal justification for appropriations before he would approve them. He also announced his intention to support a more deliberate calculation of amounts during the legislative process. This approach to budgeting lasted for 10 years.

In 1921 Congress appeared ready to accept the idea of the executive budget. This was due most likely to the experience of trying to manage the expanding government during the First World War, the mounting debt resulting from the War, the almost universal acceptance of budgetary reform and the executive budget, the President's willingness to establish an organization responsible to Congress to perform a post-audit of executive departments, and the fact that the President and Congress now once again belonged to the same political party (Wilson had struggled with Congress over this issue, and may have vetoed a bill reforming the budget process). Congress passed the Budget and Accounting Act that year, creating the Bureau of the Budget in the Treasury Department (originally staffed with 40 positions, it was moved to the Office of the President in 1939, and later renamed the Office of Management and Budget), the General Accounting Office as the Congressional audit agency, and establishing the requirement for the President to submit an annual budget proposal to Congress, covering all federal revenues and expenditures for the ensuing fiscal year.

This fully developed executive budget process went far beyond what California had done, inasmuch as the Board of Control reviewed appropriation bills and made recommendations to the Governor, but there was no requirement for a consolidated Governor's Budget proposal

covering all revenues and expenditures. Consequently, the following year, 1922, California amended its Constitution to add Section 34 (today it is Section 12) to Article IV. Based on the new federal budget model, this provision established the first requirement for a consolidated Administration proposal covering all State revenues and expenditures in the form of a Governor's Budget. The Constitution not only requires the Governor's Budget to be unified, annual (originally it was biennial), and comprehensive, but also requires itemized statements and an explanatory message, and requires it to be balanced. If recommended expenditures exceed estimated revenues, the Governor is required to recommend the sources from which additional revenues should be provided.

The California process exceeded the federal one in one other respect also. Section 12 requires the Governor's Budget to be accompanied by a budget bill itemizing recommended expenditures, and further, requires that this bill be introduced immediately in each house by the persons chairing the committees that consider appropriations. This makes tracking vis a vis the executive's proposal possible, since any amendment to the initial budget bill in either house is, in effect, a change to the Governor's Budget. It also makes the executive's proposal the starting point for legislative deliberations.

By that time, California had reformed its business practices, implemented civil service reform, consolidated its institutions, and developed auditing, accounting, and fiscal control procedures. However, California still did not have the expert staff which the patriarchs of the executive budget movement believed was essential for its success. The Board of Control's role in reviewing appropriation measures was laudable but ultimately fell short of what was required for the complex and time consuming task of performing the

technical, analytical, and policy analysis necessary to prepare the Governor's Budget and implement it throughout the upcoming year. Thus, in 1927 the Legislature created the Department of Finance, which began the development of the contemporary Governor's Budget and budget practices.

(February 24, 1998)

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