

NATIONAL BUDGET SYSTEM.

MARCH 25, 1921.—Committed to the Committee of the Whole House on the state of the Union and ordered to be printed.

Mr. Good, from the Select Committee on the Budget, submitted the following

REPORT.

[To accompany H. R. 30.]

The Select Committee on the Budget, to which was referred H. R. 30, report it to the House with a favorable recommendation and submit the following in explanation thereof:

The budget bill agreed upon by the Senate and House of Representatives in the Sixty-sixth Congress was vetoed by the President, who objected to the section of the bill which provided that the comptroller general and assistant comptroller general could only be removed from office by impeachment or by concurrent resolution of Congress after notice and hearing for inefficiency, neglect of duty, malfeasance in office, or for felony or conduct involving moral turpitude. The vetoed bill was modified to meet the objections of the President and passed the House of Representatives, but failed of passage in the Senate. The accompanying bill differs from the latter bill in two important matters. The previous bill provided that the Secretary of the Treasury should be the director of the bureau of the budget and that the assistant director of the bureau should be appointed by the President and receive a compensation of \$10,000. The accompanying bill provides that the director and assistant director of the bureau of the budget shall be appointed by the President and shall receive salaries of \$10,000 and \$7,500 a year, respectively. This bill also provides that the comptroller general and assistant comptroller general may be removed from office only by impeachment or by concurrent resolution of Congress after notice and hearing and for the causes specified in the bill. In this respect it corresponds with the bill which was vetoed by the President during the Sixty-sixth Congress.

The committee believes that these two features of budget legislation are so vital to a successful budget system that the House should renew its original position in respect to them.

The committee deemed it unnecessary to hold additional hearings in connection with the consideration of this bill. The Select Committee on the Budget of the Sixty-sixth Congress held extensive hearings covering a period of two weeks and gave full opportunity to anyone who desired to present his views upon the subject. The hearings embraced a broad consideration of all the questions involved in budgetary legislation.

The persons appearing before that committee were representatives of the executive departments of the Government, then or formerly in office, a governor of one of the States which recently adopted a budget system, Members and former Members of Congress, business and professional men, and persons who have made a special study of the problem. Documents relative to budgetary methods in this and in foreign countries were considered by the committee, thus making that investigation and study the most complete examination of a budgetary system ever undertaken in this country.

The following persons appeared before that committee in the order in which their names appear :

- Hon. Frank O. Lowden, governor of the State of Illinois.
 Mr. Omar H. Wright, director of finance, State of Illinois.
 Mr. W. F. Willoughby, director Institute for Government Research, Washington, D. C.
 Mr. John T. Pratt, chairman National Budget Committee, New York, N. Y.
 Mr. Samuel McCune Lindsay, vice chairman National Budget Committee, New York, N. Y.
 Mr. W. L. Clause, chairman special committee on budget and efficiency, Chamber of Commerce of the United States.
 Mr. Elliott Goodwin, secretary Chamber of Commerce of the United States.
 Mr. Charles Wallace Collins, writer on public finance, Washington, D. C.
 Mr. W. W. Warwick, Comptroller of the Treasury.
 Brig. Gen. H. M. Lord, Director of Finance, War Department.
 Mr. Charles D. Norton, vice president First National Bank, New York, N. Y.
 Mr. R. Fulton Cutting, chairman New York Bureau of Municipal Research.
 Mr. Charles A. Beard, director New York Bureau of Municipal Research.
 Mr. L. F. Loree, president Delaware & Hudson Railroad.
 Mr. F. A. Cleveland, formerly chairman of President Taft's Commission on Economy and Efficiency.
 Mr. F. J. Goodnow, president Johns Hopkins University, Baltimore, Md.
 Hon. W. R. Green, Representative in Congress from the State of Iowa.
 Hon. John J. Fitzgerald, formerly chairman Committee on Appropriations, House of Representatives.
 Hon. W. E. Andrews, Representative in Congress from the State of Nebraska.
 Mr. Robert S. Brookings, chairman Institute for Government Research, Washington, D. C.
 Mr. William H. Allen, director Institute for Public Service, New York, N. Y.
 Hon. Swagar Sherley, director Division of Finance, United States Railroad Administration, and formerly chairman Committee on Appropriations, House of Representatives.
 Mr. Jesse D. Burks, secretary National Industrial Conference Board, Washington, D. C.
 Mr. Charles Whiting Baker, representative of Engineering Council of America.
 Mr. Nelson P. Lewis, representative of Engineering Council of America.
 Mr. A. P. Davis, representative of Engineering Council of America, and Director United States Reclamation Service.
 Mr. Worcester R. Warner, vice president, Society of Mechanical Engineers.
 Hon. Henry L. Stimson, formerly Secretary of War.
 Mr. Francis Onkey, certified public accountant, New York, N. Y.
 Mr. Thomas R. Lill, certified public accountant, Washington, D. C.
 Mr. Herbert S. Wood, certified public accountant, New York, N. Y.
 Hon. Franklin D. Roosevelt, Assistant Secretary of the Navy.
 Hon. F. W. Mondell, Representative in Congress from the State of Wyoming.
 Hon. James A. Frear, Representative in Congress from the State of Wisconsin.
 Hon. William H. Taft, formerly President of the United States.
 Hon. Carter Glass, Secretary of the Treasury.
 Hon. Hulvor Steenerson, Representative in Congress from the State of Minnesota.

It may be stated here that there was remarkable uniformity of opinion on the part of those witnesses. Without exception all criticized the present system of handling the national finances and took the position that reform should take the direction of a definite adop-

tion by the National Government of a budget system as a central feature of its system of financial administration. And there was also a marked uniformity of opinion in respect to the particular steps that should be taken toward the accomplishment of this reform.

Broadly speaking, a budget system has three distinct phases, namely:

- (1) The formation of the budget.
- (2) Action on the budget by Congress.
- (3) Supervision and control of the execution of the budget.

The first and third steps can be taken only by changes in the statutes of the United States. The second has been accomplished by the change in the rules of the House of Representatives by which jurisdiction over all matters of appropriations has been centralized in a single Committee on Appropriations.

THE PRESENT SYSTEM.

In order thoroughly to understand the objects of the proposed bill it is necessary to consider the provisions of existing law governing the formation and transmittal of estimates for appropriations as well as the supervision and control of expenditures after the appropriations have been made.

Under the law it is made the duty "of the heads of the several executive departments, and of such other officers authorized or required to make estimates, to furnish to the Secretary of the Treasury, on or before the 15th day of October of each year, their annual estimates for the public service, to be included in the Book of Estimates prepared by law under his direction, and in case of failure to furnish estimates as herein required it shall be the duty of the Secretary of the Treasury to cause to be prepared in the Treasury Department, on or before the 1st day of November of each year, estimates for such appropriations as, in his judgment, shall be requisite in every such case, which estimates shall be included in the Book of Estimates prepared by law under his direction for the consideration of Congress." (Mar. 3, 1901, Stat. L., vol. 31, p. 1009, sec. 5.)

The statutes further provide that "all annual estimates for the public service shall be submitted to Congress through the Secretary of the Treasury, and shall be included in the Book of Estimates prepared under his direction." (R. S., sec. 3669.) The statutes further provide, "all estimates of appropriations and estimates of deficiencies in appropriations intended for the consideration and seeking the action of any of the committees of Congress shall be transmitted to Congress through the Secretary of the Treasury, and in no other manner; and the said Secretary shall first cause the same to be properly classified, compiled, indexed, and printed, under the supervision of the chief of the division of bookkeeping and warrants of his department." (July 7, 1884, Stat. L., vol. 23, p. 254, sec. 2.)

The act of March 4, 1909, provides that "immediately upon the receipt of the regular annual estimates of appropriations needed for the various branches of the Government it shall be the duty of the Secretary of the Treasury to estimate as nearly as may be the revenues of the Government for the ensuing fiscal year, and if the estimates for appropriations, including the estimated amount necessary

to meet all continuing and permanent appropriations shall exceed the estimated revenues the Secretary of the Treasury shall transmit the estimates to Congress as heretofore required by law and at once transmit a detailed statement of all of said estimates to the President, to the end that he may, in giving Congress information of the state of the Union and in recommending to their consideration such measures as he may judge necessary, advise the Congress how in his judgment the estimated appropriations could with least injury to the public service be reduced so as to bring the appropriations within the estimated revenues, if such reduction be not in his judgment practicable without undue injury to the public service, that he may recommend to Congress such loans or new taxes as may be necessary to cover the deficiencies." (Mar. 4, 1909, Stat. L., vol. 35, p. 1027, sec. 7.)

The basic defects in this system are these: Expenditures are not considered in connection with revenues; Congress does not require of the President any carefully thought-out financial and work program representing what provision, in his opinion, should be made for meeting the financial needs of the Government; the estimates of expenditure needs now submitted to Congress represent only the desires of the individual departments, establishments, and bureaus; and that these requests have been subjected to no superior revision with a view to bringing them into harmony with each other, to eliminating duplication of organization or activities, or of making them, as a whole, conform to the needs of the Nation as represented by the condition of the Treasury and prospective revenues.

Under the law it is the practice for the head of each executive department to designate the chief of each bureau under his control to estimate the expenditure needs of his bureau. When all the estimates of the bureau chiefs in a given department are sent to the head of that department, he in turn submits his estimates to the Secretary of the Treasury. The various bureau chiefs act independently of each other. Bureaus of executive departments doing similar work are thus stimulated in a rivalry, and so far as the estimates go very little effort has been made to coordinate the activities of the several departments and bureaus, and in practice this method has resulted in extravagance, inefficiency, and duplication of service.

The waste and extravagance resulting from the operation of this plan must be apparent to anyone who had made a study of it. Practically everyone familiar with its workings agrees that its failure lies in the fact that no one is made responsible for the extravagance. The estimates are a patchwork and not a structure. As a result, a great deal of the time of the committees of Congress is taken up in exploding the visionary schemes of bureau chiefs for which no administration would be willing to stand responsible.

THE BUDGET.

The committee is convinced that these defects in the existing system for handling the financial affairs of the Government can only be adequately met by Congress making definite provision for the establishment of what is known as a budget system. A budget system is one under which use is made of what is known as a budget as the central instrument for determining and making provision for the financial needs of a government. Various definitions have been given of the

term budget. The following, given by one of the witnesses who appear before the committee, most nearly meets the situation that now confronts the National Government. He states:

A national budget is the instrument through which the several financial operations of the Government are correlated, compared one with the other, and brought under examination at one and the same time. It should be at once a report, an estimate, and a proposal. It is a document through which the chief executive, as the authority responsible for the actual conduct of governmental affairs, comes before the fund-raising and fund-granting authority and makes full report regarding the manner in which he and his subordinates have administered affairs during the last completed year; in which he exhibits the present condition of the Public Treasury, and on the basis of such information sets forth his program of work for the year to come and the manner in which he proposes that such work shall be financed.

That the significance of past operations and the purpose of proposals for the future may be clearly seen, this document must be complete and detailed. It must cover all the financial operations of the Government and cover them in such a way that the relationship between past action and proposals for the future revenues and expenditures and assets and liabilities may be clearly seen.

The most important feature of a budget is that it shall be all-comprehensive. It must bring together in one consolidated statement all the facts regarding the financial condition of the Treasury, and the revenues and expenditures of the Government, past and prospective.

A budget system thus contemplates that a document corresponding to the foregoing will annually be prepared by the Chief Executive; that this document will be submitted to the legislative branch, and that the latter will make use of it as a basis for all of its action looking toward the making of provision for the financing of the Government for the future. In a word, a budgetary system has as its prime characteristic that the Government in providing for its financial needs will have a definite financial and work program; that responsibility will rest upon the administrative branch for the formulation of this program in the first instance and upon the legislative branch for subjecting it to such revision as in its opinion is deemed desirable.

If increased economy and efficiency in the expenditure of funds is to be secured, it is thus imperative that the evils should be attacked at their source. The only way by which this can be done is by placing definite responsibility upon some officer of the Government to receive the requests for funds as originally formulated by bureau and departmental chiefs and subjecting them to that scrutiny, revision, and correlation that has been described. In the National Government there can be no question but that the officer upon whom should be placed this responsibility is the President of the United States. He is the only officer who is superior to the heads of departments and independent establishments. He is the only officer of the administrative branch who is interested in the Government as a whole rather than in one particular part. He is the only administrative officer who is elected by the people and thus can be held politically responsible for his actions. Furthermore, as head of the administration it is to him that Congress and the people should look for a clear and definite statement of what provision in his opinion should be made for the revenue and expenditure needs of the Government. The requirement that the President shall prepare and submit to Congress annually upon its convening in regular session a budget will thus definitely locate upon him responsibility for the formulation and recommendation of a financial and work program for the year to come.

If duplication, waste, extravagance, and inefficiency exist in any branch of the service, the President will be responsible for them if he includes in his budget an estimate for their continuance. The members of his Cabinet and their assistants would aid the President in preparing a budget for which his administration is willing to be charged. It substitutes teamwork in the executive departments for the unorganized work of each of the members of his Cabinet.

The primary purpose of the bill that is submitted with this report is thus to insure the preparation and submission of such a program by the Chief Executive.

In order that the President may be in a position intelligently to formulate such a plan he must be given a machinery through which he can keep in intimate and immediate touch with all of the work of the Government and be able intelligently to scrutinize, revise, and correlate their requests for authorizations to engage in work or for funds with which to pay for their several activities. The bill that has been prepared by the committee provides for such a machinery by the creation of a service known as the bureau of the budget. This service is placed under the immediate direction of the President. Its duties are to assist the President in the performance of the powers conferred upon him by the proposed act. It is important to note that though certain definite duties are imposed upon the bureau no powers are given to it directly. All powers in respect to the preparation of the budget and in respect to the direction, supervision, and control of subordinate administrative agencies are conferred upon the President. The bureau is the mere agency of the President in exercising these powers. This is a matter of great importance, since it would be highly undesirable to give to any such officer direct authority superior to the heads of the departments and independent establishments.

Some apprehension has been expressed that if the authority above described is conferred upon the President and provision is made for a service such as a bureau of the budget that neither the President nor the bureau would, in view of the enormous complexity of the operations of the Government, have the time and means of effectively discharging their duty. The committee has carefully considered this point and believes that such an idea is wholly erroneous. The bureau of the budget will not begin to exercise its duties until after estimates of appropriations are formulated and submitted to it, as the representative of the President, in September. It will be the duty of this bureau to secure information and to build up records in its office that will furnish it with complete data regarding the organization, activities, and expenditures of the several departments. With this full information, secured in advance, it will have no difficulty in subjecting estimates of appropriations to intelligent scrutiny and in raising points that should receive the attention of the President in finally passing upon such estimates. The whole work of determining the financial needs of the Government can, moreover, be enormously simplified by standardizing administrative practices and procedures.

It will doubtless be claimed by some that this is an Executive budget and that the duty of making appropriations is a legislative rather than Executive prerogative. The plan outlined does provide for an Executive initiation of the budget, but the President's responsibility ends when he has prepared the budget and transmitted

it to Congress. To that extent, and to that extent alone, does the plan provide for an Executive budget, but the proposed law does not change in the slightest degree the duty of Congress to make the minutest examination of the budget and to adopt the budget only to the extent that it is found to be economical. If the estimates contained in the President's budget are too large, it will be the duty of Congress to reduce them. If in the opinion of Congress the estimates of expenditure are not sufficient, it will be within the power of Congress to increase them. The bill does not in the slightest degree give the Executive any greater power than he now has over the consideration of appropriations by Congress. The proposed plan, if adopted, will unquestionably greatly reduce the drudgery of committees in making inquiry into estimates. The budget should and will receive the same scrutiny by committees in Congress, and by Congress, that the estimates now receive. There should be no let-up by Congress in scrutinizing to the minutest detail the need for any appropriation, and the bill leaves Congress free and independent to act upon any proposal contained in the budget. But the estimates for appropriations will come to Congress after a more mature deliberation by an official who has the power to coordinate and consolidate governmental activities and to revise the estimates of expenditure. The budget under this plan will be an Executive budget only to the extent that the Executive initiates the budget. It is a congressional budget after it has been considered and acted upon by Congress. The responsibility of the Executive and Congress will be clearly defined, and each branch will be held to a strict accountability for the part it has played.

GENERAL ACCOUNTING OFFICE.

The bill creates an independent establishment known as the general accounting office, to which is transferred all the powers and duties now imposed by law upon the Comptroller of the Treasury and the six auditors. The Comptroller of the Treasury and the six auditors under existing law are appointed by the President. Under the present plan the Congress has no power or control over appropriations after they have once been made. It has no knowledge as to how expenditures are made under these appropriations, and inasmuch as the Comptroller of the Treasury and the six auditors owe their appointment to the President, they could not hope to hold their positions if they criticized wastefulness or extravagance or inefficiency in any of the departments. The Executive having the power to initiate the budget, certainly an independent audit is necessary to insure at all times a businesslike execution of the budget.

The bill provides for a comptroller general of the United States and an assistant comptroller general of the United States, who shall be appointed by and with the advice and consent of the Senate, (and shall receive salaries of \$10,000 and \$7,500 per year, respectively.) They shall hold office during good behavior, but may be removed only by impeachment or by concurrent resolution of Congress for inefficiency, neglect of duty, malfeasance in office, or for any felony or conduct involving moral turpitude.

The only way by which Congress can hold a check on expenditures is to continue a control and audit of the accounts by an independent establishment. The tenure in office of the comptroller general and

the assistant comptroller general is made during good behavior, in order to secure competent men to occupy the positions and to make them absolutely independent of the Executive in their decisions. The position is a semijudicial one, and the tenure in office is made secure so long as the comptroller general performs his work in a satisfactory manner. The creation of this office will enable it to furnish information to Congress and to its committees regarding the expenditures of the Government. He could and would be expected to criticize extravagance, duplications, and inefficiency in executive departments. He could do this without fear of removal. Under the present plan neither the Comptroller of the Treasury nor the six auditors make such criticism. The reasons why they do not are apparent, yet opportunities for wholesome criticism abound in every department. The creation of this office will, it is seen, serve as a check, not only on useless expenditures but will keep the bureau more keenly alive to a rigid performance of its duties and obligations. It has been urged by some as the most important forward step in the process of wise budgetary reform.

In reporting the bill the committee realizes that the step taken by Congress at this time should be evolutionary, rather than revolutionary. The bill is not intended as the last word in budgetary legislation, but is intended to correct weaknesses that are clearly discernible, and that should be corrected at once. Unquestionably other defects in the present law, and defects in the operation of the proposed law, will appear in the future, and as they appear must be met in the spirit of willingness on the part of Congress to make such changes in its laws as will insure rigid company and businesslike administration in every department of the Government. The changes suggested are founded upon business principles, and will, if adopted, result in real economy.

In conclusion it is desired again to point out that the provisions of the bill, as framed by it, carry no departure from the fundamental political principles of the present Government of the United States. It rather seeks to emphasize and make more effective those principles. It thus makes more definite the constitutional obligation that rests upon the President "from time to time to give to Congress information of the state of the Union and recommend to their consideration such measures as he shall judge necessary and expedient" and furnishes him with the means by which he may meet this obligation. It provides for no restriction on the part of Congress to modify the proposals of the President but, on the other hand, seeks to have such proposals come before it in such a form, so itemized, classified, and supported by detailed data, as will enable it more effectively to perform this function. Only a few witnesses urged the adoption of the British system, under which the legislative branch is restrained from modifying in any important detail the administrative program. On the contrary, it was brought out that the American system under which executive proposals are subjected to detailed and painstaking scrutiny by the legislative branch offers advantages which are not present under the British system. The bill thus leaves intact present conditions in respect to the location and exercise of powers by the two branches of the Government but, it is believed, provides the means for the more efficient exercise of these powers.