

## The History of Better Budgeting

A look back at *GFR* in April 2006

In the April 2006, 100-year anniversary issue of *GFR*, W. Bartley Hildreth provided a history of the quest for improving municipal budgeting—a history we don’t tend to think about anymore. But it provides a real “look how far we’ve come” moment.

The article explains that as the 20th century opened, muckraking journalist Lincoln Steffens published *The Shame of the Cities*—a collection of his magazine essays decrying the corruption of cities. He chastised political and business leaders for their collusion in handling public funds.

In 1907, during the Tammany Hall machine period, New York City Government became the first city to implement an executive budget. Part of the credit goes to the political machine’s support for reform-minded Herman Metz to serve as city comptroller. In a 1909 speech to the American Statistical Association, Metz identified seven “cardinal defects” that he found four years earlier in the city’s budget:

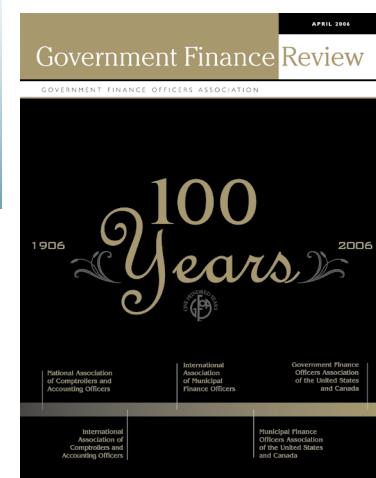
1. Its basis was bluff—not facts statistically presented.
2. Its statistics were uni-columnar, or bi-columnar at best.
3. Its classification did not fit the work to be done.
4. Its allowances were not segregated by function.
5. Its hearings were farces.
6. Its pledges were broken.
7. Its victims were blissfully ignorant.

Overcoming these defects meant reigning in the departments and asserting executive control. Therefore, the city required departments to use uniform budget forms that rested on each department head examining the data prior to its submission to a central bureau, whose responsibilities included an onsite review of each department’s budget situation. The bureau printed copies of the budget document and distributed them to outside groups, and it reformed budget classifications—decision units, or cost centers, as we say today—to present details for each business unit.

To Metz, the lack of segregation of functions permitted the movement of funds from one function to another (e.g., the use of police allocations for health services) without official approval. Appropriation controls were the answer. The city revised its approach to budget hearings, but Metz cited the need for central budget monitoring throughout the year. This reform quickly spread to other cities.

Another reform emerged out of a devastating hurricane affecting the City of Galveston, Texas. The commission form of government was created to provide the city with an effective way of directing city affairs. Each of the elected commissioners was assigned a department to manage, with one heading the newly created department of finance. This action solidified the role of finance as a city department.

Later, President Harry S. Truman appointed former President Hoover to head a commission tasked with executive branch reform. In 1949, the



commission coined the term “performance budget” in calling for a change in budgetary focus. In the line-item approach to budgeting, the focus is on the inputs—monetary amounts and items purchased. The Hoover Commission envisioned a budget that would instead focus on functions, activities, costs, and accomplishments.

A performance budgeting reform movement soon blossomed. GFOA (under its prior name, the Municipal Finance Officers Association) created the Committee on Performance Budget and Unit Cost Accounting with a broad mandate to discover, report, and develop materials that would serve as a benchmark for “this rapidly developing field.” The committee sponsored workshops at the 1953 and 1954 annual conferences that resulted in reports detailing performance budget reforms for the City of Los Angeles, City of New Orleans, and City of San Diego.

Another reform relied on a management-by-objectives approach to budgeting, with organizations linking employee ownership of work objectives to committed resources. Resource scarcity called for more attention to macro-level concerns, while respecting the need for unit competition and program goals. Zero-based budgeting offered a way to make these connections, but the process complexity belied results that seldom imperiled the base budget.

The article pointed to a heightened political, economic, and social focus on fiscal policies and the results they produce—which is still, of course, the case. And GFOA has been—and remains—“a key agent in advancing public budgeting.” ■