

Budget & Finance

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Stop and Smell the Surplus

The Federal Budget in Surplus: How We Got There?
Where We Are Going?

The two experts at this panel--**Irene Rubin**, professor at Northern Illinois University and editor of *Public Administration Review*, and **Stanley Collender**, senior vice-president at Fleishman-Hillard, provided detailed answers to many questions suggested by the new, large, and growing federal budget surpluses. In all but one case, however, their answers were in disagreement. The exception was when they both definitively predicted that 1999 would see no resolution of the Social Security financing problem.

Otherwise, Rubin argued that surpluses were illusory due to their inclusion of Social Security cash flows. She broadly apportioned credit for deficit reduction, but also criticized the neglect of management requirements and unmet social needs by the overemphasis on FTE ceilings and discretionary caps. She projected that underfunding in these areas, the inevitable recession, and renewed entitlement growth will return deficits sooner than most expect.

Collender's rejoinder was that we should "stop and smell the surplus." He noted that even though the FY2000 surplus will be smaller than that of FY1999, two continuous surpluses last occurred in 1956 and 1957. He predicted that FY2000 would also follow FY1999 with a congressional failure to pass a budget resolution, explaining this as the result of the increased difficulty of the politics of a surplus. (On the day of this panel, Representative Bob Livingston--who appeared at ABFM last year--announced his challenge for the speakership, and later that night, Speaker Gingrich resigned.)

Mike Curro of GAO ably chaired the session.

Roy T. Meyers

WILLAMETTE STUDENTS WIN ABFM PAPER AWARD

Mike Gray and **Michael West** of Willamette University won the 1998 Graduate Student Paper Award for the Association for Budgeting and Financial Management. Their winning paper was entitled, "Pension Ratio Analysis for Public Employee Retirement Systems." The pair evaluated the utility of pension ratios for the assessment of solvency of public employee retirement systems. They found, contrary to conventional wisdom, that the ratios were not very good predictors.

Gray and West both graduated from Willamette with their masters in management last spring. Gray is a financial analyst with Hewlett-Packard in Corvallis, Ore. West is an assistant analyst with the California State Department of Finance.

The work was nominated by **Fred Thompson**, the Grace and Elmer Goudy Professor of Public Management and Policy Analysis at the Atkinson Graduate School of Management at Willamette. Thompson accepted the award for the pair as their work assignments — Gray in Southeast Asia and West in Sacramento on the gubernatorial transition team — prevented them from attending the 10th Annual Conference on Public Budgeting and Financial Management in Washington, D.C. on November 5-7, 1998.

The pair will split a \$300 cash award. It marked the third time students from the Oregon school won an ABFM student paper award. A total of 22 paper awards have been made.

Mike Dougherty

CHAIR'S MESSAGE

Our annual conference went off without significant hitches. This was due to the exceptional support provided by **Mike Bourgeois**, DEA, and **Jim Smith**, Virginia EPA, local arrangements; the students on the registration desk, **Urooj Amjad**, **Kris Gonier**, **Galina Gurova**, and **Maria Plotnikova**; **Marilyn Rubin**, sponsorship; **Dick Zody**, VPI & SU, with audio visual equipment, and especially the members of the program and awards committees.

For me, the high point of the conference was the introduction of 17 of ABFM's past chairs by **Jocelyn Johnston** of Kansas University. This was a wonderful way of celebrating our past and announcing our future. But I was also extremely gratified to accept the student paper award on behalf of two of my former students: **Mike West**, now a budget analyst with the State Department of Finance in California, and **Mike Gray**, now a financial analyst with Hewlett-Packard in Corvallis, Oregon.

Two major decisions were made at our annual business meeting. First, we decided to hold our annual conference in 2000 in Kansas City, Missouri. A local arrangements team consisting of **John Bartle** and **Carol Ebdon**, University of Nebraska-Omaha, **John Forrester**, University of Missouri, **Bart Hildreth**, Wichita State University, and Kansas University's **Jocelyn Johnston**, **Suzanne M. Leland**, and the irrepressible **Kurt Thurmaier** are already planning the event. Members of the local arrangement team will also serve on the program committee.

Second, in hopes of slowing and perhaps even reversing our membership decline, we approved two new classes of members -- professional office membership, which would permit offices, agencies, or departments to join ABFM and a limited number of their employees to receive many of the benefits of individual membership in ABFM, but not including publications, and class-B individual membership, which would permit individuals to join ABFM without also being full members of ASPA. Both of these membership categories are scheduled to be ratified by the ASPA policy council in December. They reflect the efforts of a work team headed by **Merl Hackbart**, University of Kentucky, and including the omnipresent **Bart Hildreth**, **Alfred Ho**, Iowa State University, and **Jim Smith**. **Mary Hamilton**, Executive Director of ASPA helped to insure that this proposal would need the needs of both ASPA and ABFM.

Finally, I would like to note the retirement of **Mike Bourgeois**, who has completed his fourth term of office as treasurer of ABFM, and **Henry Thomas**, University of North Florida, his fourth term as secretary of ABFM. They have served ABFM faithfully and well and deserve our thanks for everything they have given this organization. I would also note that **Justine Farr Rodriguez**, deputy associate director for economic policy, U.S. Office of Management and Budget, and **Philip G. Joyce**, Syracuse University, have completed their terms on the ABFM executive board. Ditto.

I am out of here! Thanks, guys. Fred

Awards and Recognitions

This year's *S. Kenneth Howard Award* went to **Dall Forsythe** of MBIA and Associates for his work as a practitioner and educator. The award goes to individuals who have demonstrated a devotion to the advancement of public budgeting by improving its processes and technical aspects, and who have provided both leadership and a lasting contribution to the field. Forsythe remarked that budgeting people do not expect awards since in that endeavor they make many mistakes but few friends, as nobody is perfectly happy with the product. Forsythe has taken a position at the Rockefeller Institute at SUNY-Albany where he will concentrate on a number of issues including performance budgeting, multi-year budgeting, and the impact of the business cycle on budgeting. Forsythe invited his colleagues to join him in studying these topics as they will certainly be important issues in the future.

The *Aaron Wildavsky Award* was presented to **Thomas Lauth** for his contributions to both the budgeting literature and his students. Lauth, professor and chair of political science at the University of Georgia, noted the debt of intellectual gratitude that all students of budgeting owe Aaron Wildavsky. He offered his thanks to **Glenn Abney** of Georgia State University for his friendship and their professional collaboration, and to five of his former doctoral students who were in the audience for their roles in his professional work. Lauth suggested that his research could be segmented into three areas: legislative/executive relations, attempts to rationalize the decision processes in budgeting, and the use of the line-item veto, primarily at the state level, but always with consideration of the implications for its use at the national level. He suggested that if his work is worthy of anyone's attention, it is due to the overarching focus on governance.

Larry Jones of the Naval Postgraduate School presented a special award to **Jerry McCaffery** for his service to ABFM including organizing the first conference ten years ago. **John Mikesell** of Indiana University accepted for McCaffery. **Jocelyn Johnson** of the University of Kansas recognized past chairs of ABFM, and its predecessor organization SBFM, including:

Thomas D. Lynch, 1977-78	Donald Kull, 1978-79
Emerson Markham, 1979-80	George Schaefer, 1980-81
Eli Silverman, 1981-82	Wm. E. Schuerch, 1982-83
Andrew Fogarty, 1983-84	Richard Hickman, 1984-85
Richard Hickman, 1984-85	F. Daniel Ahern, Jr., 1985-86
James Alexander, 1986-87	Thaddeus Juszozak, 1987-88
Richard Zody, 1988-89	Jerry McCaffery, 1989-90
Nancy Carroll, 1990-91	William E. Landsidle, 1991-92
John Mikesell, 1992-93	Larry R. Jones, 1993-94
W. Bartley Hildreth, 1994-95	Marilyn Rubin, 1995-96
Karen Stanford, 1996-97	Robert D. Lee, 1997-98

Next year's chair, **Merl Hackbart** thanked **Fred Thompson** for his service as chair and recognized him with a plaque expressing the association's gratitude for a well organized conference.

Wes Clark

Budgeting for an Era of Surplus

Paul Posner, Director of the Budget Issues Group of the U.S. General Accounting Office, opened the plenary with his prediction that a surplus was expected to continue and that as such presented decision makers with unique issues. How would a surplus be handled in the short and long term; what are the politics of surplus; what mechanisms will be evoked in the processes; and what are the measurement issues.

The panel brought four perspectives to the discussion: **Allen Schick** of the Brookings Institute and the World Bank; Gloria Timmer, executive director of the National Association of State Budget Officers (NASBO) and former State of Kansas Budget Director; **Tom James**, Assistant Director, Budget Issues Group, U.S. GAO; and **David Mathieson**, the 1997 Howard Award winner and former OMB Associate Director as well as assignments with the National Budget Commission, the GAO and the OECD.

The panel generally agreed that while the surpluses we are now experiencing will continue for at least three years, no one had come up with a definition of a surplus. Timmer expressed it best when she asked if a surplus is a dollar amount above that required for ending balances; an amount above the revenue estimates; money no one anticipated; money that has no prescribed use? Are rainy day funds surpluses? And just how much is a surplus?

Professor Schick, who had once promised to retire when the federal budget was balanced and now must set a new retirement criterion, listed reasons for the surplus: the end of the Cold War and its attendant expenses, the use of constraints built into the Budget Enforcement Act (BEA), the revenue surge of \$100 billion or more a year over the past four years. With the tax increases of the 1990s, the economic boom in which the rich are doing better than in the past, has benefited the U.S. Treasury.

However, the BEA rules are decaying. They are inapplicable to surplus situations. Congress, in adjusting to the surplus, has created greater allowances for political maneuvering by overusing the emergency spending loophole and erecting no firewall between discretionary caps and PAYGO.

James pointed out that the lack of fiscal rules or codes was a deficiency that other democracies faced when their surpluses eventually turned into deficits. For other countries, such as United Kingdom, Australia, Canada, Norway and Sweden, surpluses were due to strong economic growth and temporary changes in the balance of revenues and expenditures. Then came the unanticipated economic slowdown with spending and tax increases. Several countries have now instituted fiscal stabilization codes to avoid future volatility and guide fiscal policy, using strategies and multiple measures that emphasize long term health.

Timmer pointed out that, although the states are entering 1999 in a strong fiscal position, governors have learned caution in time of surplus. They were caught in the early 1990s recession when, in mid year, revenues did not meet their legislatures' planned expenditures. Governors were forced to reassess spending priorities and made the tough decisions. Most have instituted reserve funds and are actively using strategic planning in order to avoid having to recover from bad short term decisions. (The May 1998 *Fiscal Survey of the States* can be found at www.nasbo.org.)

Mathieson noted that balancing the budget at the state level is a political plus but different from the federal government where the responsibility for fiscal policy lies. For example, he raised the question of reserve funds: How can we set aside reserves when we have a huge national debt? Moreover, even if we want to pay down, what is a prudent

level for the national debt?

The panel generated a lively discussion which included questions of how to get short term political

With the tax increases of the 1990s, the economic boom in which the rich are doing better than in the past, has benefited the U.S. Treasury.

actors to discuss long term issues, such as social security, a topic on which the panelists disagreed. Schick felt that surpluses could be applied to the expected social security deficit while Mathieson thought the social security system was much too complex an issue and needed more comprehensive consideration. Schick warned that discussing the issue did not equate to action. Posner pointed out that other countries define social security as a transfer payment not a liability. The panelists also expressed concern that current budget formulas and subcategories, both at federal and state levels, discouraged transparency in decision making.

In a question about whether party made a difference in budgetary decision-making, Mathieson pointed out that the electorate was decrying confrontation; he suggested a commission to create rules for the budgetary process. Schick criticized the scoring industry that had developed subsequent to the BEA, driving out programmatic considerations.

The panel closed with comments on measurement issues related as much to the overall process as the surplus issue. Schick noted that costing models are primitive in government compared to the private sector. Performance measurement died out before because it lacked a cost basis for program breakdowns. One cannot measure something so simple as the cost of janitorial services for schools because information is not recorded on that basis.

Karen Stanford

IPMN at ABFM'98

Colleagues of the International Public Management Network (IPMN) treated attendees to a thought-provoking discussion of budget and financial reforms worldwide. Australian **John Wanna** addressed budgeting and resource management in the land down under. His arguments made clear that the Australian tax system is becoming ever more centralized, with tax policies set at the federal level and implementation left to sub-national governments. He also addressed Australia's portfolio system for allocating resources, the process of rolling forward estimates, the increasing awareness of the limitations of resource management in departments and agencies, and multi-year budgets and resource agreements.

Turning northward, **John Mikesell** and **Hugh Hinton** reported on the state of financial affairs in Russia and Ukraine, respectively. Mikesell stated that around three-fourths of Russia's consolidated debt is at the sub-national level, and that several of the regions have all or part of their debt in default, with all meeting the usual standards of insolvency. The central government still defines the tax structure, collects the tax revenues, and disburses dollars to lower level governments. Local governments, in short, do not have much

of a tax effort. In this fiscal system, Mikesell found local governments getting their revenues through nonfinancial off-sets and bartering of often inferior products that have little, if any, market value. A solution that he recommends is to give more taxing authority to sub-national governments and to invigorate the private market. Hinton's portrayal of Ukraine was equally intriguing. The country has experienced little if any economic growth since 1991, with inflation spiraling upward, the currency decreasing in value, and bartering running rampant. The nation is in transition, trying to reestablish fiscal control by establishing a modern budgeting system. Unfortunately, Hinton argued, the modernization is occurring incrementally, where baggage from the past is retarding the real potential for change. Budget allocation and preparation in Ukraine is still very centralized, but during implementation the sub-national governments tailor the budget by extensively reprogramming resources. As with Russia, Ukraine also has a large shadow economy and a tax system that is oblivious to its presence.

The remaining discussant, **Bruce Wallin**, brought us up to date on Japan's fiscal reforms. In the 1980s, the Japanese government tried to control deficits without increasing taxes. Its solution was to

shrink the size of government and cut expenditures. From 1987 to 1993 the country experienced a budget surplus, a condition that gave way in the 1990s with the collapse of Japan's 'bubble economy.' By 1996, Japan's debt as a percent of GDP skyrocketed. The government increased taxes and in 1997 it took additional action to decrease the deficit, such as cutting international aid. Today, according to Wallin, Japan's financial sector is suffering significantly. Wallin recommends that the Japanese government steer away from stimulus strategies and traditional financial reforms, and instead turn to opening the economy, deregulating the market place, and adopting a competitive multi-party political system.

The IPMN aims to provide a forum for sharing ideas, concepts and results of research and practice in the field of public management. You can find out more about the network on the web at <http://www.willamette.org/ipmn>. Also see the International Public Management Journal, edited by Fred Thompson. The journal can be ordered online at order@jaipress.com, by snail-mail at JAI Press Inc., 100 Prospect Street, P.O. Box 811, Stamford, CT 06904-0811, or by calling 203-323-9606.

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