

**MANAGEMENT ACCOUNTING IN GOVERNMENT:
RESURRECTING THE CLASSIC RULES OF BUDGET
THEORY**

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ABSTRACT

The objective of this paper is to resurrect an early twentieth century continental European literature on government budgeting and accounting. Though this literature was influenced by UK government practices, it was only published in English by reformers in the US. The paper explains how the literature was introduced into the US and why it had limited influence there. The main reason for its resurrection is to make available the empirical-inductive arguments offered for and against the central financial control of a government. These arguments provide a basis for developing a better contemporary understanding of management accounting within governments.

INTRODUCTION

The financial administration of government in the UK has long been essentially a set of practices uninformed by written theory (Peden, 2000, pp. 20–22); in the US, while it has long been informed by theory, it has rarely been informed by accounting theory (Brown, 1988, p. vii). At the beginning of the twentieth century there was a strong continental European literature on the financial administration of government (the “science of finance”, written primarily in French, German and Italian), which often took UK government practices of the latter half of the nineteenth century as a model. Its focus was on the role of the budget in providing central financial control (known in the UK government as Treasury control). A significant manifestation of that continental European literature appeared in English in the 1970s as a foundation for government budgeting for the emerging European Union: Strasser

(1977) referred to the ‘classic rules of budget theory’ (in translation from the French).

This literature was made available in English in the first decades of the twentieth century but only in the US. There had been calls for the re-form of the US federal government and the introduction of budgets, and the models offered by the reformers were those of the continental European literature and UK practice. There were echoes of this literature in the US even into the 1930s (Sundelson, 1935), but not beyond. Key (1940) was the seminal paper that bemoaned concentration on ‘the mechanical foundations of budgeting’ in government and provided direction for a fundamental shift of emphasis to the economics and politics of budgeting. This lead was subsequently followed, mostly in the public administration literature and largely at the expense of crucial aspects of those mechanical foundations.

The primary purpose of this paper, using the early twentieth century literature, is to make available the empirical-inductive arguments offered for and against central financial control of a government. The second section synthesises the arguments in the English version of the standard continental European text (Stourm, 1917). The third section synthesises the US reformers’ views of UK practices (Willoughby, Willoughby and Lindsay, 1917). The fourth section explains how the contemporary UK texts perfunctorily addressed the same issues. The fifth section offers an explanation of why the US literature subsequently dropped a detailed discussion of the classic rules of budget theory. The final section offers some concluding remarks.

‘LE BUDGET’

In the US, a statutory budget for the federal government was introduced in 1921, under the Budget and Accounting Act. This was one of many governmental reforms that had been promulgated during the first two decades of the century, particularly in state and local government – indeed, it has been argued that this budget reform had been ‘a local affair that carried the federal government with it’ (McCaffery, 1987, p. 362). More broadly, it was a part of the foundation of the administrative state, begun in 1887 with the establishment of the Interstate Commerce Commission which:

... became a model for subsequent regulatory commissions and in the broader sense, started the rise of a vast administrative complex now called by many names (some with slightly different meanings – and *all* none too flattering): the “regulatory state,” “bureaucratic state,” “welfare state,” “corporate state,” and for purposes here, the “administrative state”. (Stillman, 1987, p. 5)

Stillman (1987, p. 6) goes on to identify 14 individuals with this rise (including Charles A. Beard and Frederick A. Cleveland) and their contributions:

They wisely conceived and astutely crafted such new institutional inventions as the council-manager plan, the Executive Office of the President, administrative law, regulatory reform, the general staff concept, public service training, executive budgets, audit procedures, research bureaus, and the civil service.

Two books provided the theoretical and practical underpinnings for the federal law that introduced the new budget, both part of a series:

Ten years ago a definite plan was formulated for the preparation of a series of scientific handbooks through which exact information might be made available to citizens and public officers alike, about the methods and practices developed by various governmental agencies in the conduct of public business. (Cleveland in Willoughby et al., 1917, p. v)

One of the associated projects was directed by three professors of government (from Princeton, Johns Hopkins and Columbia), who went as an ‘unofficial commission’ to England, France and Germany to collect material. The commission began its work in July 1914, the effect of which was to render it impossible to carry out many of the planned visits to continental Europe, and to necessitate concentration on London. Two books were subsequently published by the Institute for Government Research, which was established in 1916 as ‘an institution of citizens for cooperating with public officials in the scientific study of business methods with a view to promoting efficiency in government and advancing the science of administration’ and was subsequently absorbed into the Brookings Institution (Willoughby et al., 1917, p. ix).

Willoughby et al. (1917) was the report on the work done on the UK in London; for continental European thought and practices, the US had to rely on the English translation of a French classic, *Le Budget* by René Stourm (7th edn, 1913).

The Budget was published in the US in 1917 (subsequently referred to in this paper as Stourm; in the quotations from it, the words in square brackets were added by the US contributors). The book was translated by one, edited by another, introduced by a third, and ‘prepared under the direction of Frederick A. Cleveland’.

Both books sought methods of introducing forms of central, bureaucratic control, particularly of finance, into the US federal government. The contributors understood much about democracy but were looking for ways in which to have less of it.

The significance of France, the primary focus of Stourm, was stated as follows:

For citizens of the United States there are many lessons in the French struggle to reconcile strong administration with popular control – to establish strong leadership and to safeguard democracy. (Beard introducing Stourm, p. ix)

The significance of the UK came from the fact that Stourm himself, in trying to introduce less democracy into France, while he drew from many other European countries, emphasised the UK:

The one thing that seems necessary, in M. Stourm’s view, to perfect French practice is to follow the lines of English experience to their logical conclusion. He gives it as his personal opinion that England has outdistanced all other nations in financial management. (Beard introducing Stourm, p. xii)

Stourm’s style is inductive. He ranges over centuries of practices across European countries, offering arguments for and against particular practices, in varying degrees of detail, to come to what he perceives to be suitable rules for adoption by the French government. The purpose of the rules is prescriptive: to impose central financial control.

Yet he repeatedly recognises (also on pp. 58 and 603) that rules are only rules:

Economy undoubtedly depends more on the good will of those who have power in their hands, than on the use of a system of accounting; no procedure can, properly speaking, automatically bring about economy. (Stourm, p. 165)

The main issues the book discusses in relation to the financial management of government are:

- The fiscal year vs. the calendar year
- The length of the period of accounting
- Cash accounting vs. the French system of dealing with accruals
- Coverage of the budget
- Accuracy of the budget
- The amount of detail in the budget.

On the convergence of the fiscal year and the calendar year:

We have already seen that great countries like the United States, England, Prussia, Germany and Italy – since 1844, 1855, 1877 and 1884 respectively – have discontinued the beginning of the fiscal year with January 1, and substituted for that date either the first of April or the first of July. (Stourm, p. 108)

Countries added were Norway, Canada, Mexico, Serbia and Japan:

In all these countries the changing of the date had for its purpose and result to shorten the interval which separates the preparation of the budget and its being put into operation, with a view to making the estimates as exact as possible. (Stourm, p. 108)

The problem with the calendar year was that the budget could not be dealt with during the previous summer, when the landed interests were supervising work in the fields. Thus, the time lag between starting the budget process and finishing it needed to exclude the summer.

Concerning the length of the period of accounting, he has the following to say:

In order to see clearly one's affairs, to direct them in a prudent way, and to be able to appreciate their results, it is necessary on certain dates to recast and summarize them, to group, analyse, classify and compare one result with another and then start a new period of expenditures [with full knowledge of the significance of past experience]. Commonly, the year constitutes such a lapse of time, at the end of which the periodical reckoning takes place. (Stourm, p. 116)

Later on in the book:

Furthermore, a year seems to be the maximum of time over which the legislatures can afford to give the power [control of the purse] out of their hands, and the minimum of time, which executives need to put the budget ... into execution. (Stourm, p. 319)

But he gives examples of biennial, triennial and quinquennial budgets, while recognising that these are exceptions. He also discusses England's standing charges on the Consolidated Fund (voted for all time until a law changes them) and other partial budgets that are voted less often than annually, as well as budgets voted more often than annually (*'douzièmes provisoires'*).

Chapter XVI deals with additional appropriations, which are seen as inevitable. In this he labels the 'Corrective Budget' as the one that is produced during the fiscal year, based on actual amounts to the date of the corrective budget. His worry, based on experience in Italy, is that everyone will focus on the corrective budget as the real one, and ignore the original budget.

Chapter XVI also deals with transfers from one budget heading to another. Annulments are of two kinds: those yielding up unspent balances to the Treasury, and those carrying forward committed balances that have not yet been paid for from one fiscal period to the next. But he does not discuss these further.

It is recognised in both theory and practice that a cash accounting is needed showing balances at the beginning and end of a period, with changes in the form of receipts and payments. But there are two situations demanding such cash accounting. One is the yearly period

(coinciding with the civil and fiscal year in France); the other occurs where someone leaves the job within the year and a cash accounting is needed from that person on departure.

However, cash flows do not tell the whole story; transactions (orders, credit, payment of cash) can extend over lengthy periods. This means that another accounting system is needed:

... operations begun within a year shall be recorded as a part of the year's business, the necessary time being allowed for their final completion ... the time required for the liquidation and payment in no respect alters the designation of the year which is affected by the expenditure in the accounts. These rules apply to the State as well as to individuals. (Stourm, p. 117)

At this point, the US editor adds a footnote to the effect that 'Modern business' has found a way of dealing with these problems, which is:

... to keep "asset", "liability" and "operation" accounts, the initial entries in which show the inception of each transaction; then later when accounts receivable are collected, these are liquidated by "cash receipts"; when accounts payable are met they are liquidated by "cash disbursements".

By closing these accounts at the end of the period, we know the cash position but also the total operations of the year:

This method, however, does not take into consideration funds and appropriation devices designed for exercising control over spending officers as distinguished from the corporation or institution as a whole. (Stourm, p. 117)

What Stourm is addressing, according to the US editor, is a group of 'fund and appropriation accounts' that 'show the unexecuted authorizations and the delayed contracts which operate as encumbrances'. (Stourm, p. 117)

Stourm's discussion, in fact, invokes the French practice of extending the year of account (the fiscal year – which may or may not coincide with the calendar year) to a longer period (fiscal period). He points out

that this has meant in the past that the fiscal period can be indefinite. Having discussed other definitions of what the fiscal period is, he concludes that it 'endeavours to adjust the assets and liabilities affecting a single year [in accounts which run] beyond the limits of the year in question' (Stourm, p. 121).

Stourm offers two advantages of using fiscal periods, but these amount to unsupported assertions: that 'the true budgetary situation' is established, and that comparison can be made. The only further point he makes is that, while cash accounting has its place (in holding to account those who have custody of cash), there are other demands on the accounting system. What he does point out is that if cash accounting were the only accounting it would be too easy, intentionally or otherwise, for cash receipts and payments to move from one fiscal year to another.

There are disadvantages of 'fiscal periods'. When the period was without limit, it was too simple to use the delay in auditing to hide suspicious transactions. But even with a limit, there are problems. Distinguishing entries between the old fiscal period and the new itself causes delay. More importantly, transactions that are properly of the new period can, sometimes with the connivance of contractors, be pushed into the old (referred to as 'the grave of annulments', because annulments are amounts given up to the Treasury), and *vice versa*.

Stourm (and his predecessors) describes England at that time as using only a cash accounting system, for personal accounting and for the budget (1 April to 31 March). But does this not mean that the financial statements can be manipulated easily? 'The temptation to abuse becomes so strong that in France it would be deemed irresistible' (Stourm, p. 133). In England, however, the Appropriation Accounts, drawn up by the 'chiefs of service, controlled by the Treasury and endorsed by the Auditor and Comptroller General' (Stourm, p. 134) would disclose fraudulent entries, a task made easier by the proximity of the accounts to the facts. More importantly, the government and parliament work together:

The question of possibility of abuses and frauds, without overlooking its importance in other countries, does not exist in England. (Stourm, p. 134)

The simplicity of the cash accounting means that financial statements are published in a timely fashion.

There are many qualities that a budget should possess but there are two that contain all the others. The first:

The budgets must describe *in extenso* all the operations relating to revenues and expenditures, clearly and frankly. (Stourm, p. 145)

Four words were used to refer to this: unity, universality, inclusiveness and comprehensiveness (the last of which was added by the US contributors). The rule is required because 'all public revenues and all public expenditures, without exception, must be sanctioned by the representatives of the country' (Stourm, p. 146). The second:

The budgets must estimate revenues and expenditures as exactly [reliably] as possible. (Stourm, p. 146)

Stourm adds that universality requires all budgetary entries of expenditures to be in one list and all revenues in another. However, he also gives exceptions, of two kinds: one where the 'profits' or 'subsidies' are what the state is interested in, and one in which the amount of detail would be too great. In these cases, trying to impose the principle 'would result in absurdity' (Stourm, p. 154, fn. 2). The examples he gives of lack of universality, as well as the raising of income, include barter of scrap in return for upgraded material rather than selling the scrap at auction.

But note:

As a matter of fact, no one likes to see the revenues intended to benefit him submerged in the mass of other revenues. On the contrary, everyone tries to secure for himself some personal independent resource to form a certain small reserve for his own use. From this disposition have come the eternal attempts on the part of administrators and governments to emancipate themselves from the rule of universality. (Stourm, pp. 146-7)

An advantage of universality is its clarity, allowing no 'lurking places' for suspicious activities. Such clarity will lead to economy in that people will spend less when they can see what they are spending.

When it is deemed necessary to adopt specialisation (also referred to as special funding), to show profits and losses of enterprises deemed to be businesslike (his word), Stourm's argument (pp. 167–8) is that this should not be done in the budget but in information outside the budget:

... each administration shall publish annually an explanatory report of its management, an account of which is absolutely necessary from all points of view.

On the need for budgets to be accurate, Stourm states that this requires wisdom (see things as clearly as possible) and sincerity (state the truth once ascertained).

One way of exploiting inaccurate budgets is to have a 'false economy', in which a budget of obligatory appropriations is reduced to make the budget balance but a supplementary appropriation is demanded (and won) when the spending becomes due (Stourm, p. 196).

The word 'specification' is used to refer to the level of the budget at which the legislature discusses and votes, and therefore 'the limits of which the executive power must strictly respect' (Stourm, p. 295):

These are precisely the steps by which financial history, from the beginning of the century, has gradually developed. Budgetary specification has developed from a vote *en bloc* by ministry to a vote by section of a ministry; finally, it has come to a vote by chapter, where it now stands, showing the tendency to descend as far down as to the vote by paragraph and by article in accordance with [legislative] suggestion. (Stourm, p. 296)

The main examples he uses relate to significant changes in policy by moving money from one purpose to another.

A prevailing view was that the specification should be as low as possible. Stourm's argument is, however, that this would be excessively time-consuming for the legislature, both in voting and in dealing with supplementary appropriations. But even more: 'Too many divisions lead to too many expenditures, because of the natural disposition of the disbursers to exhaust their appropriations'. By specifying at a higher level, the hope would be that under-spending in one area could be balanced by over-spending in another (Stourm, p. 303).

In summary, the foregoing is an attempt to synthesise Stourm's arguments for and against what have since been termed the classic rules of budget theory. His book was of obvious importance to the US reformers, not least because it drew on centuries of experience in the major European governments, including, of course, in the UK government. But the reformers also sought direct evidence of UK practices. The result of their research is the book to which we now turn.

'THE SYSTEM OF FINANCIAL ADMINISTRATION OF GREAT BRITAIN'

Willoughby, Willoughby and Lindsay (1917) is the report that the three US academics were able to write, notwithstanding the war. Their point of departure was Adams, *The Science of Finance*, first published in 1899, which was described as 'in many respects excellent' but which did not 'precisely meet the needs' of the report (Willoughby et al., 1917, p. 1). Adams (1899) was a US textbook that primarily addressed the US federal government, with comparisons from England, France and Germany. Its sources for the comparisons of budgeting were Stourm and, a book we discuss later, Bastable (the editions were not specified).

Willoughby et al. (1917) begins with a chapter that is ostensibly an 'analysis of the problem of financial administration of a government' but amounts more to a setting out of basic principles to be addressed by the US federal government in reforming its procedures, as well as a rationalisation of the need to learn from the English system. Most fundamentally, the chapter points out that:

Our administrative system is based on the principle that, as regards both financial affairs and the general conduct of work, the several departments are completely independent and coordinate units, each working under the direct authority of Congress. (Willoughby et al., 1917, p. 20)

Even the power that the Treasury had (of prescribing the keeping and rendering of accounts) had been narrowly interpreted:

In England, on the other hand, the principle is definitely recognized that the Treasury Department has large powers of

control over the financial transactions of all the other administrative services. In a way it may almost be said that this department is an agent or organ of Parliament for controlling the administrative services rather than a part of the administrative services proper. This power of the Treasury, the means through which and the manner in which it is exercised, will constitute one of the most important points considered in this report. (Willoughby et al., 1917, p. 20)

The conclusion is:

Until Congress is prepared both to accept the principle involved in having the financial affairs of the administrative services subjected to a superior supervision and control, and to provide for the creation of a proper organ through which this power shall be exercised, it will not be possible for the United States to have incorporated in its system of government that feature of the British Government which more than anything else is responsible for the efficiency and economy with which the details of Governmental operations are conducted. (Willoughby et al., 1917, p. 182)

In general, there are two systems of accounting for the federal government to choose from:

The first thus rests upon an accrual basis and the second upon a cash basis. The first is adapted to giving all the information needed for the management of the whole estate, including the cash; the second is adapted only to treasury management.

Each of these systems has its advantages and disadvantages. The first is more complex, but furnishes all the information needed for central control over the entire management; the second is simple, but lays no basis for accurate comparisons of cost. Cash systems may be so operated as to give approximately accurate comparisons of cost by keeping the collections and payments belonging to each year's accruals separate. This means that the accounts of each year are kept open until all the collections of revenues accrued and all the payments of liabilities incurred during that year have been

made. This is the system employed by France; ultimately it gives a close approximation of revenues and cost, but the result is long delayed. (Willoughby et al., 1917, p. 25)

On parliamentary control in England, they stated that although:

... supreme control over the public purse by the House of Commons was early established as one of the fundamental principles of the British constitutional system, no means for making this control really effective were put into execution until well into the nineteenth century. (Willoughby et al., 1917, pp. 26–27)

Before that point, control meant control over the amount collected in taxes, not over the way in which the taxes were spent:

The chief solicitude of Parliament was the protection of the taxpayers. It hardly had the conception of taking itself the determination of the manner in which funds, the raising of which was once authorized, should be expended. (Willoughby et al., 1917, p. 27)

Anything more would have been seen as an unwarranted incursion by the legislature into the executive.

The book proceeds as a synthesis of the practice in England, occasionally interrupted by discussion of alternatives and advantages and disadvantages. The major point about procedure, in terms of spending money, is that only the executive can propose spending money and this can only be done by submitting an 'estimate'. The sole exceptions are the Army and Navy – all others have to submit their estimates to the Treasury, which then proposes to the House of Commons. Even in the case of those two exceptions, the estimates are first checked by the Treasury.

The continuing discussion of the estimates (Chapter IV) is interrupted by a discourse on how much *virement* should be allowed without Treasury approval (essentially how far down the accounting system the legislative vote should go). Again the Army and Navy were allowed much more discretion than the others. Whatever the amount of discretion, transfers need Treasury approval, there must be clear accounting,

and they must be reported to the legislature and the auditor; however, sanction after the fact is not a real sanction because Parliament is always happy to sanction after the fact.

In favour of wide discretion, they offer the following:

- Greater facility in meeting emergencies. Later on, the book takes for granted that transfers between capital projects is to be encouraged, presumably because the likelihood of delays in projects is higher (Willoughby et al., 1917, p. 191)
- If all surpluses must be surrendered, ‘all, or at least a very strong, incentive to economy is removed’ (Willoughby et al., 1917, p. 85). They offer practical cases in which the ability to transfer meant that civil servants would squeeze money from other votes ‘to secure funds to supplement appropriations which were inadequate for the purposes for which they were granted’ (Willoughby et al., 1917, p. 85). In another example, the fact that there was no possibility of *virement* meant that otherwise unused balances would be spent since it was seen as a calamity that they should be given up: ‘As the end of the year approached the condition of appropriation balances was carefully studied with the deliberate purpose of seeing how all the money available could be used. This was but human nature. Any money that had to be returned to the Treasury was a loss to the service for which it was originally appropriated’ (Willoughby et al., 1917, p. 85).

Against the idea of wide discretion, they offered the following:

- It tends to produce incorrect estimates, because of the tendency to try to produce a large balance that can be moved around with impunity; the counter to this is that if there is no discretion, there will be a tendency for all estimates to be on the safe side
- It tends to prevent due surrender of unexpended balances, by allowing application to other purposes.

In commenting on the English situation, they note that there is no consistent format to the budgets: some analyse the ‘objects of expenditure’ (things bought), others the ‘character of expenditures’ (i.e. capital outlay, fixed charges, maintenance, operation), others still the ‘function’ (nature of the service) (Willoughby et al., 1917, p. 99).

The principle of keeping revenues and expenditure strictly separate is discussed in terms of the UK government’s ‘appropriations in aid’. This

is approached as though the English system was to allow departments to keep much of the income they raised, with only the excess being paid into the centre. Thus the amount kept has to be estimated before the year begins and anything realised over and above this is paid into the centre. The US authors examine this in some detail. They begin with the official reason for the procedure (inaugurated in 1881):

- Paying all receipts into the centre and then voting the associated expenditure overstates public spending. If you quote the gross public expenditure, it overstates the amount needed in taxation by about £4 million
- Departments do not have the inducement to collect this revenue if it is paid over and thus have no inducement to reduce the amount of taxation.

However, the US authors do not approve:

- If you show the figures net, it understates the cost of government. It might imply an overstatement of the cost to the taxpayer but it understates the cost of government: 'Is there not apparent confusion of ideas in the British system in respect to the cost of operating the Government and the net cost to the taxpayers?' (Willoughby et al., 1917, p. 107). Further 'it complicates enormously the problem of making a consolidated statement of the income and expenditure of the Government' (Willoughby et al., 1917, p. 108)
- They agree that while there must be consideration of both expenditure and income at budget time this does not need the netting
- The government materially claims uniformity, but the US authors point out that this is not so: not all receipts are appropriations in aid and they cite a UK writer (Harold Cox) who gives many examples of inconsistencies.

In summary, the previous two sections of this paper have synthesised the arguments offered in the two books published in the US in 1917 for and against what have since been termed the classic rules of budget theory. Both books relied heavily on UK government practices. But, in contrast to the esteem in which those practices were generally held, there was only perfunctory treatment of them in contemporary UK texts (Bastable, 1903; Shirras, 1936; Hawtrey, 1921), as the next section shows.

UK TEXTBOOK TREATMENT OF UK PRACTICES

Stourm's 600-page book was devoted to budgetary theory and practice. Willoughby et al. (1917), examining the UK, concentrated on 'financial administration' and only incidentally raised matters of budgetary theory. In the main contemporary UK textbook treatment (Bastable, 1903), budgetary theory was a small appendage to what anyway was (in English at least) the minor branch of the economics literature that came to be known as public finance.

Bastable (1903) was first published in 1892, when it included the following in its preface:

The subject of Public Finance, as distinct from that of Political Economy, has not of late years attracted much attention in Great Britain. The very excellence of English financial institutions and management has contributed to this result by making the need of theoretic study as a basis for practical reforms less pressing ... A lecturer who desires to deal with financial questions has no text-book – like those at the service of his French, German and Italian colleagues – to use as the groundwork of his instruction, and is therefore compelled to make constant reference to foreign treatises not readily accessible to, or easily read by, his class. (Bastable, 1903, p. xi)

It was not in fact until Musgrave and Peacock (1958) that significant parts of the continental European literature referred to (including in Sweden) were generally made available in English. But more importantly, of the 780 pages of Bastable (1903) only 45 related to 'financial administration and control', fewer still to budget rules; moreover, one of Bastable's principal sources for this treatment was Stourm (4th edn).

From the same publisher, and with essentially the same structure as Bastable's, Shirras (1936) is a two-volume treatise (of over 1,100 pages) called *Science of Public Finance* (1st edn, 1924; 2nd edn, 1925). It describes itself as a 'study of the principles underlying the spending and raising of funds by public authorities' (Shirras, 1936, p. 3):

The science of public finance is the equivalent of what Germans call "Finanzwissenschaft", the knowledge or science of finance. The French use the convenient expression

“science des finances” and the Italians similarly “scienza delle finanze”. (Shirras, 1936, p. 4)

It cannot be too often emphasised that public finance is a part of the science of economics. It is, however, no mere appendage. Our subject presumes a knowledge of other branches of the subject of economics, especially of the theory of money and credit and also banking. (Shirras, 1936, p. 7)

... the science of public finance, has also an intimate relation with statistics. (Shirras, 1936, p. 8)

Shirras is committed to balanced budgets:

Nothing makes for greater inefficiency in any country than a Budget which refuses to balance. Public credit cannot be maintained unless the Budget is balanced and unless some provision is ordinarily made for the redemption of debt. (Shirras, 1936, p. 11)

Of the more than 1,100 pages, Book V (Financial Administration) takes just over 100 pages:

An important branch of the science of public finance is financial administration, which is concerned with the collection, the preservation, and the distribution of public funds. (Shirras, 1936, p. 937)

These pages are essentially a description of procedures (which contrasts sharply with the points the book discusses at length in its early pages, about the nature of science, induction and deduction), referring to many different countries but without much design as to when one country is referred to in detail. The historical discussions emphasise the UK. Current practices in the UK and India are treated extensively; those of the US and France are referenced. Budgetary theory is referred to very briefly and in *ad hoc* places. He quotes many countries on the point about the length of their budget periods. He also quotes many on whether the fiscal year coincides with the calendar year but only very briefly deals with advantages and disadvantages: namely, the longer the period the more the executive is out of control; less than a year produces unnecessary administrative problems. He does outline the French

system of the 'fiscal period' and argues that the delay in producing the accounts is a problem. On the other hand, the UK system tends to produce a rush of expenditure in March but:

This can be obviated by a strict system of control by which the appropriation would not be allowed unless the amount is entirely and genuinely required. (Shirras, 1936, p. 967)

He only briefly discusses the issue of gross budgets. In discussing relations between the executive and legislature, he mentions the Civil Contingencies Fund in the UK and points out that the fund is audited to make sure it is not used to defeat the surrender of balances – 'i.e. to avoid unspent balances from being surrendered on the 31st March each year, the doctrine of lapse which has been the rule in British finance since 1866' (Shirras, 1936, pp. 1010–1011).

Hawtrey (1921) is a small book that essentially describes administrative and constitutional practices. It does not identify rules or procedures systematically. Chapter VI (The National Accounts) begins:

One of the leading principles of public accounting adopted in the years preceding the passage of the Act of 1866, and embodied in that Act, was that the gross public revenues should be paid into the Exchequer, and all public expenditure should be met by payments from the Exchequer.

He then gives examples of how this often did not happen before the Act and of exceptions after it. An 1891 Act tried to introduce uniformity but did not succeed ('appropriations in aid'). He also discusses the procedure for dealing with the surrender of unspent balances and examines criticisms of the surrender:

It is said that when a department has secured a certain amount of money from the Treasury and from Parliament for the financial year (perhaps not without a struggle) it will be reluctant to leave a part unspent, and will hasten, towards the close of the year, to devise means of using up any balance which would otherwise have to be surrendered. The criticism cannot be dismissed as trifling, based though it is on an abject misconception of the position alike of the Treasury and of all other departments. Human nature is frail, and official human nature does sometimes forget that the settlement of the

expenditure to be incurred on a service is not a battle-ground for contending departments but a matter of public policy to be decided by the servants of the public in the public interest. (Hawtrey, 1921, p. 55)

On the matter of departments holding balances:

There is nearly always some balance, for every department has to keep within its vote, (increased if necessary by a supplementary vote,) and it is not possible to calculate the expenditure so nicely that every penny voted will be spent (except in the case of a vote confined to one or more grants of agreed and invariable amounts). (Hawtrey, 1921, p. 54)

The added argument against surrendering unspent balances is that a corresponding reduction will be made in next year's estimate, but:

All that is necessary is to convince the Treasury of the facts. (Hawtrey, 1921, p. 56)

THE DEMISE IN THE US OF THE CLASSIC RULES OF BUDGET THEORY

Returning to the US context in which Stourm (1917) and Willoughby et al. (1917) had been published, it is now clear that these books did not encourage much more literature on the classic rules of budget theory. Sundelson (1935), in a paper called 'Budgetary Principles', attempted to resurrect and develop the issues. His explicit purpose was stated as follows:

... there is no utilization of ... [theoretical principles] ... as a conscious starting point or as a mode of approach for the study of budgets. It is the European writers who have developed and employed these principles. European students seldom treat budgetary ideas except in terms of such rules (*Grundsätze, règles*). It is the purpose of this study to review their contributions critically and to present them for future use in an effort to stimulate an interest in the philosophy of budgeting. (Sundelson, 1935, p. 237)

Sundelson (1935), however, did not achieve its objective: the synthesis of budgetary theory in that paper did not provide an explicit basis for the study of budgets in the US.

Key (1940) famously bemoaned the concentration on 'the mechanical foundations of budgeting' in government; one of the offending papers he cited was Sundelson (1935). Key's central question for budgeting to answer was: 'On what basis shall it be decided to allocate x dollars to activity A instead of activity B?' (1940, p. 1138). This challenged public administrators and invited political scientists and economists to address matters of budgeting but it was also, by its emphasis on resource allocation, a conscious move away from another fundamental purpose for budgeting: control. The elements of Sundelson's synthesis of budgetary theory that related to control, which are the ones that are required to satisfy accounting, were de-emphasised and indeed to some extent turned away from.

But even had Key's shift of emphasis not taken place, the chances of Sundelson (1935) being successful were probably not good. The paper continually emphasised the point that the 'rules' of budgeting, typically offered by continental Europeans as prescriptions for governments, were to be used only to describe the nature and extent of departures found in a particular budget under study. His approach was to emphasise the advantages and disadvantages of each rule and its associated modifications. This approach was not open-ended: when practices on a particular issue ranged from full compliance to non-compliance, he rejected the rule. But all of the rules he offered did allow for different degrees of compliance.

To have had any chance of success, Sundelson (1935) was forced to take this approach. It is not difficult to understand why those charged with reforming US government and building an administrative state turned, in July 1914, to European theory and practice. They were acutely conscious, of course, of constitutional differences, but were attempting to introduce the benefits of greater central control without compromising the democratic foundations as they perceived them. But even as early as a month later, the appeal of European theories and practices must have waned. As Karl (1987, p. 29) puts it more broadly:

World War I, the Russian Revolution of 1917, and the development of fascism in the 1920s and 1930s gave those whose interests would be threatened by efficient

administration an effective weapon to use, namely, that it was foreign and that it represented what was increasingly being called "totalitarian rule".

Karl (1987, p. 29) continues:

... the inability of American proponents of effective administration to cope with the fact that American definitions of democracy excluded sophisticated conceptions of a public interest elite capable of being responsible to the national interest as a whole was bound to give reformers difficulty.

The European rules of budgetary theory were, in their extreme, unmodified form, concerned with providing central financial control of government by a small group of treasury officials, albeit on behalf of the legislature. Sundelson (1935) attempted to distance himself from the rules in this form, but he still used them as standards against which to measure departures. It is unlikely that there was general acceptance of them in the US as standards at all. (Webber and Wildavsky, 1986, pp. 399–427)

Perhaps the most direct reason for the failure of Sundelson (1935) relates to a rule of budgeting that he did not recognise as such but that he used unerringly in his discussion: the rule of budget balance, which required that (in peacetime) taxation equalled net expenditure. As we have seen, this was a core rule for the European theorists and was a core practice of the US as well – until 1933. In that year, the US adopted an "Emergency Budget" that included "extraordinary" expenditure, financed in part by borrowing. Sundelson (1934) directly criticised this lack of budget balance. His 1935 paper adopts the European rule neither as immutable (how could it?) nor as a standard against which to compare a particular practice. But he does continually use the rule in its extreme, unmodified form:

... the fiscal function of maintaining balance demands a unified treatment of all expenditures and revenue, and requires that no part of the material in the budget system shall be considered as separate or apart from the ordinary finances and accorded a personality of its own. (Sundelson, 1935, pp. 247–8)

We now know that if there had been political problems in implementing the European rules of budgeting as a whole into the US, the period in which Sundelson was writing witnessed the beginning of the end of one of the rules everywhere – first in theory, much later in practice (Burkehead, 1954): the rule that national governments' budgets should balance.

CONCLUSION

This paper has resurrected the empirical-inductive arguments made available in English in the second decade of the twentieth century concerning what have since been termed the classic rules of budget theory. The two sources are books published in the US in 1917. The paper has attempted to provide a comprehensive synthesis of the relevant arguments.

The paper makes no comment on the merits of the arguments about central financial control or on their contemporary relevance. The reason for resurrecting these arguments is that while the related practices of budgetary control of public money are currently ubiquitous there is little literature that comprehensively addresses them. The absence of literature about the financial management of the UK government is shown to be just another example of the enduring lack of written theory in that area. The paper also offers an explanation for this absence in the US literature.

The intention, then, is that researchers of current and future practice in the financial management of governmental organisations will benefit from having available these empirical-inductive arguments, even though the use of historical material in this way must be handled with care. Two clear aspects of the historical context must be accommodated: first, the classic rules were written and debated when government was small; and second, this took place only in the context of sovereign governments.

A by-product of this paper is to remind us that at the beginning of the twentieth century the literature was truly European. Strasser's work (1981) suggests that the continental European literature on the classic rules of budget theory may have been longer-lived than that in English. Perhaps as the barriers between pan-European understanding are e-

moved, a comparative international understanding of the financial management of governmental organisations is once again realisable.

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