

OUR NATIONAL BUDGET PROCEDURE

By

ANGEL Q. YOINGCO*

In the last two decades especially during these trying post-war years, the National budget has become a topic of great import not only among the government people and solons but also among the students of public administration and finance and the public in general. The attraction is caused perhaps, partly by the progress in the field of public budgeting in recent years and partly by the ever-increasing tempo of the level of public outlays which in several instances have cited widespread forebodings. This paper is, therefore, an attempt to trace briefly the issues that surround the budget and the mechanics of how the national budget is prepared. This paper limits itself as much as possible to considerations and procedures until fiscal year 1954 inasmuch as going beyond 1954 would mean covering the tremendous changes in budget-making influenced by the program-type of budgeting.

1. *The Budget Concept*

The term "budget" may be traced back to the Latin word *bulga*, which literally means bag or purse. Some scholars seem to favor, however, its derivation from the middle English *bouget*, meaning bag or wallet. It applied to the great leather bag carried by the Chancellor of the Exchequer to Parliament and contained the documents explaining the needs and resources of the country. The meaning gradually shifted from the bag itself to the documents which the bag contained.¹ In Canada the term "budget" is defined as the annual speech delivered by the Minister of Finance before the House of Commons wherein he reviews the whole financial position of the government and presents his proposals to finance the expected expenditures.² As Governments changed and developed, the "budget" took on a

* Economist, Committee on Appropriations, House of Representatives and Assistant Professor in Economics and Finance, University of the East.

much broader meaning. In the light of present-day usage Philip Taylor's definition embraces almost all ideas of the term, ancient and modern.

"The budget is the master plan of government. It brings together estimates of anticipated revenues and proposed expenditures, implying the schedule of activities to be undertaken and the means of financing these activities. In the budget fiscal policies are coordinated, and only in the budget can a unified view of the financial direction in which government is going be observed."³

Since the Philippine budget is a *line-item*⁴ type, it can not fully reflect the fiscal policies of the government. Some improvements were made, however, in 1952 to 1954.

Commonwealth Act 246 entitled the "Budget Act" defines the Budget as the financial program of the National Government for a designated fiscal year, consisting of statements of estimated receipts and expenditures for the fiscal year for which it is intended to be effective, based on the results of operations during the preceding fiscal years.

2. *Essential features of a government budget*

As theorized by prominent authors of Public Finance, especially Professor Buck, the budget as a financial and work plan, has three essential features, namely: equilibrium, comprehensiveness and annuality.

The balancing of government income and outgo is deemed to be the essence of a budget. Writers on this subject are generally agreed on this point. However, current thinking has extended the scope of balancing by allowing disequilibrium under some special cases hoping that the budget will balance itself in the next few years. This is recognized in section 13, of the Revised Budget Act (Republic Act 992):

Sec. 13 *Balanced Budget:* The ordinary income shall be used primarily to provide for the current operations of the Government. Except in case of a national emergency or serious financial stress, the existence of which has been duly proclaimed by the President, the total authorized appropriations for the current operations shall not exceed the ordinary income; and, unless extraordinary circumstances

OUR NATIONAL BUDGET PROCEDURE

justify it, the total estimated ordinary income shall not only cover the total estimated appropriations for current operations and capital outlays but it shall leave a reasonable surplus besides.

The second essential requisite signifies that the budget covers *all* income and *all* expenditures of the government including surpluses or deficits. The French writers express comprehensiveness as the rule of universality.

Since 1950 the Congress has advocated the incorporation in the budget proposals of the President of all the financial requirements and incomes of the government — not merely to avoid the requests for deficiency appropriations in the future but to present to the people a more realistic document.

Lump sums, covering both big and small amounts, were spelled out or itemized. Our last Congress has also required the inclusion of a mass of line items or objects of expenditures not formerly appearing in the budget proposals.

In the United States, it was only in recent years that the idea of budgetary comprehensiveness was realized as evidenced by her new "economic budget" and "cash consolidated budgets".

Besides equilibrium and comprehensiveness — a third requirement must be satisfied. Annuality embraces a fixed period of time.

In some States in the United States the life of a budget is two years. In the Philippines, the fiscal year is established for the period from July 1 of each year to June 30 of the following year. This duration makes it possible for Congress to focus its attention not only to needed appropriations for the year under consideration but also to scrutinize fixed and continuing appropriations.

3. *Budgetary Procedure in the Philippines*

Essentials of governmental budgetary procedure have been summarized as follows:⁵

Budgetary procedure involves the bringing together of estimates covering the multifarious needs of a government, the checking of these estimates against recorded expendi-

ture data, the calculation of the government's income in the light of past experience, the preparation of the budget and supporting measures by the responsible executive or other agency of the government, the adoption of the budget and the enactment of the bills designed to carry it into operation by the legislative body, and, finally the execution of the budget by the executive or the administrative officers in accordance with the authorizations of the legislative body.

The foregoing summary indicates three major processes of sound budgeting: (1) the formulation of a money and work plan (2) the enactment of an appropriation bill to effect this plan, and (3) the execution of this financial plan by the executive and administrative officials. Under our practice, auditing has been added as the fourth step.

4. *Contents of the national budget*

Our Budget Act leaves to the President not only the form of the budget but also the character of information that should be furnished. It authorizes likewise the President to include any other desirable additional features and statements, that in his opinion would project a dynamic picture of the financial conditions and operations of the Government.

Using the 1954 issue,⁶ consisting of 1157 pages as an example, the national budget document shows that its contents consist of (1) the introductory portion, (2) Part I — ordinary expenditures, (3) Part II — extraordinary expenditures, and (4) the appendices.

The scope of the budget's contents is designed to show the financial results of fiscal proposals for the last completed fiscal year, the probable results for the current year, and the recommendations for the ensuing year. The budget is prefaced by a summary of results, recommendations and outstanding features which are taken up in the President's budget message to the Congress.

5. *The Formulation Process*

Section 19, paragraph (1) of Article VI of the Constitution requires the President to submit within fifteen days of the opening (fourth Monday of January) of each regular session of the

OUR NATIONAL BUDGET PROCEDURE

Congress a budget of receipts and expenditures, which shall be the basis of the general appropriation bill. Thus the preparation of the annual estimates of budget income and expenditures is governed by the rules and regulations issued by the President. In the United States, the date of submission is provided under the Budget and Accounting Procedures Act of 1950 (within fifteen days) which amended the Budget and Accounting Act of 1921 (within ten days).

Budget Commission — In actual practice, the Budget Commissioner issues a memorandum budget circular approved by the Executive, sometime by the end of August or early September, approximately ten months before the inception of the budget year. The budget announcement for the fiscal year 1953 for instance was issued on September 18, 1952. It contained features referring to the (1) General Fund (2) Receipts automatically made available for Expenditure for Certain Specific Purposes (3) Special and Revolving Funds, and (4) Operating Fiduciary or Trust Funds.

The budget circular, besides emphasizing the general statement on the President's fiscal program and policies, is supported with detailed budget instructions on how to prepare a budget proposal. The preparation of budget policies involve the consideration of many factors⁷ among which are the capacity of the national economy and of the taxpayers to meet the government's financial requirements; the domestic needs of the people; and the international commitment of the country. As soon as the circular is received by a spending agency, the estimates of expenditures and receipts are prepared. It is reviewed afterwards by the financial officer⁸ in the Department having cognizance of the accounts of the agency. The financial officer may, and probably will, revise the estimates before they are sent to the Budget Commission on or before September 15.

The estimates for general expenditures shall include those for salaries and wages, grade allocations of positions and their changes, sundry expenses, and purchase of furniture and equipment. The estimates of receipts are submitted to the Department of Finance.

Budget Hearing — The second review is made by the Budget Commission, which is presumed to be thoroughly acquainted with the President's desired policy as to the scope of expenditures. One or more budget examiners of the budget division are assigned to specialize on the business of each major agency or department. Their continuing and intimate contact provides them with the competency needed for intelligent review of departmental requests. The budget examiners verify and analyze the various proposals and then prepare *Difference Sheets* or uniform statements of changes proposed showing, by department, bureau or office, the number of new positions requested, the number of positions proposed, with their salary increases, and other items proposed to be deleted, increased or decreased. Proposals which deserve favorable action are noted.

In the past years, to expedite the verification and analysis of the budget estimates and to avoid errors or misunderstanding, each Department, including the Congress of the Philippines, the Supreme Court, the Court of Appeals, the Commission on Elections and other independent offices, are requested to designate a representative to deal directly with the Budget Commission in all matters affecting the estimates of his office.

After all the budgetary proposals are received and compiled by the Budget Commission scheduled budget hearings are held from November to the first week of December before the Commissioner of the Budget, the Auditor General and the Commissioner of the Civil Service who act as chairman and members of the Budget Commission, respectively. In previous years technical men from the Congressional financial committees sat down during the hearings.

The Department heads and chiefs of Offices or their representatives are asked to explain and justify their respective requests orally. In some instances written statements are required to be submitted.

After the hearings are concluded, the Budget Commission decides on the proposals according to creditable representations, giving priority to indispensable public services. A consolidated budget of income and expenditures for the fiscal year

OUR NATIONAL BUDGET PROCEDURE

under consideration is prepared on loose sheets which are submitted to the Cabinet, usually just before the deadline set by the Constitution for the President to send the budget to Congress. Reconsiderations of disallowed requests may be taken up and approved during the Cabinet deliberations.

In the consideration of the submitted budget, careful and judicious estimating is made with the view of reducing the proposals to actual needs, considering prevailing conditions. Of course, it is to be admitted that throughout the formulation process the President possesses almost the final say.

Immediately after the approval of the budget by the Cabinet, the budget message of the President containing the highlights and recommendations is prepared. Should the President's budget message contain recommendations for new revenue legislation, most likely these recommendations had been made by the Department of Finance, members of Congress, or his advisers.

6. *Legislation of the Budget*

The following is a summary description of Congressional procedure for the enactment of the general appropriation bill.

The President after due consideration and on or before the date provided in the Constitution transmits his budget proposals to Congress. Although the President possesses the power to initiate legislation on proposed programs of expenditures, Congress is granted under the law the power to accept, reject or modify said programs. Subject to the limitation that the recommendations of the President shall be the basis of the general appropriation bill and with the further inhibition that such proposals may not be increased except those of the legislative and judicial departments, the power of Congress to legislate on budget affairs is plenary and general. This step is in compliance with the Constitution which provides that no money shall be paid out of the Treasury except in pursuance of an appropriation made by law.

The budget, as proposed by the President is submitted first to the House of Representatives where the message of the President is read. Thereafter the Speaker refers it to the Com-

mittee on Appropriations for study and recommendation. At the same time, copies of the budget document are distributed to the members of Congress for their perusal and information. The above step is in compliance with Section 18 of the fundamental law of the land.

All appropriation, revenue, or tariff bills, bills authorizing increase of the public debt, bills of local application, and private bills, shall originate exclusively in the House of Representatives, but the Senate may propose or concur with amendments.

Committee on Appropriations — The Budget Commission is to the Executive as the Committee on Appropriations is to the House of Representatives. The Committee on Appropriations is composed of 12 majority and 5 minority members, a total of 17. During the last four years, for most purposes, the Committee on Appropriations has in addition to its ordinary personnel a more or less continuing technical staff who make preliminary studies of the different aspects of the budget.

Usually, a month or two, before the receipt of the executive budget the Committee releases circular letters to all departments and offices requiring them to submit annual reports and personnel *plantillas* which are believed helpful to familiarize the members of the Committee and its technical staff of their activities, accomplishments and proposals. The Committee also requires the spending agencies to submit written budget justifications.

Consideration of the Budget by the Committee — In order to facilitate its work, budget hearings are scheduled. In some cases, the Committee sits *en banc* — when the departments or offices to be heard concern all members, otherwise it operates on a sub-committee system. The sub-committees that specialize in the different agencies of the government hear only those assigned to them.

On the first day of the public hearings, the Secretary of Finance, the Auditor General and the Governor of the Central Bank of the Philippines are invited to speak on the recent economic trends prevailing in the country and the outlook of the finances of the Government. The Budget Commissioner is

OUR NATIONAL BUDGET PROCEDURE

likewise heard on matters relating to the salient features of the budget under consideration and how the estimates of expenditures were determined.

During the scheduled public hearings, (except hearings on National Defense which are mostly closed-door for security reasons), department secretaries and bureau chiefs and/or their accounting officers are called upon to testify before the members of the committee or sub-committee as the case may be. They are made to explain their respective proposals orally and in some instances requested to submit justifications or explanations in writing if some data or other pertinent supporting papers are not immediately available.

Such hearings provide a valuable opportunity for face-to-face communication between members of Congress and officials of the executive departments and agencies. In order that testimonies of these officials will be useful and informative to the members and to those who read the printed records of the public hearings, queries based on the preliminary findings of the members of the committee and the technical staff are propounded. Likewise, the officials called to testify must prepare themselves to give clear, concise and specific answers to the questions of the members of the committee proper or sub-committees.

After the hearings, which usually take two to three weeks, are concluded, the Committee on Appropriations meet in an *executive session* for the "marking up of the budget" and the drafting of a general appropriation bill. Recommendations of the sub-committees are given much weight in deciding borderline issues.

Partly because Congress cannot increase the appropriations recommended by the President and partly due to the complexities of modern government, the most able, conscientious legislator is often left in grave doubt and distrust about the requests presented to him. Requests are apt to be "padded" while the estimates of revenues are apt to be "inflated" — but by how much?

Satisfying themselves with the written justifications and oral explanations, important documents and reports gathered

such as financial statements and trial balances of all offices concerned, changes like reductions are effected and limitations are attached to produce what they believe a realistic general appropriation bill.

The next step calls for the filing of the general appropriation bill with the House, after which it is calendared for 1st reading. In the 1st reading only the title of the bill is read. During the second reading on the floor of the House, the bill is open for discussion. This is after the chairman of the Committee on Appropriations has delivered his sponsorship speech and after he has entertained questions from both the majority and minority members. Some committee members are assigned to assist the chairman in answering the interpellations of the members of the House.

After the bill has been discussed and debates closed, amendments are in order in accordance with the rules of the House. Usually it takes around two weeks for the House to approve the appropriation measure.

The bill as amended, then undergoes its final stages in the House. Necessary corrections and insertions of amendments are incorporated in the bill before the same is ordered printed in final form. Once printed, copies are distributed to the members of the House at least three calendar days prior to its passage, except when the President shall have certified for its immediate enactment. The bill is then called for the last and third reading wherein no amendment is allowed and the question of its final passage is taken immediately, the yeas and nays being entered in the journal of the House.

After the general appropriation bill is passed by the House, it is signed by the Speaker and attested by the Secretary of that body and sent to the upper chamber.

In the Philippines the general appropriation bill is passed in an omnibus form unlike in the United States in which the executive budget is not voted upon as a single document but is considered in a piece-meal fashion.

Senate Finance Committee — In the Senate, the general appropriation bill undergoes practically the same procedure as

OUR NATIONAL BUDGET PROCEDURE

in the House. The bill is referred to the Senate Finance Committee which studies and modifies the bill further according to its policies.

The established practice and theory recognize the Senate as the final place for appeals or "reclamas". In the Philippines for a year until April, 1953, it was the reverse: "reclamas" were made to the House. This was because the Senate was controlled by the nacionalista, the opposition party then. Nevertheless, crossing party lines is common in deciding issues.

If the appropriation bill passes the Senate without amendments, modifications or changes it is signed by the President of that body and attested by the Senate Secretary. Then it is sent back to the Speaker of the House for his signature and to the Secretary for his attestation. But this does not usually happen. More often the Senate makes changes, amendments or modifications. As a matter of fact there was one time when the appropriation bill forwarded to it by the House when sent back to the lower chamber could hardly be recognized as the same bill. This was due to substantial alterations made by the Senate. If these changes are not acceptable to the House then each chamber of Congress will appoint its respective members to the Conference Committee to thresh out the controversial matters. It is interesting to note that New York State whose budget pattern is similar to that of the Philippines has no need for a Conference Committee.⁹

Joint Conference Committee — The Conference Committee is composed of an equal representation from the House Committee on Appropriations and the Senate Finance Committee. In the Conference Committee compromises are common, "give and take" is the practice and minor differences are easily settled. American observers note this as very interesting. As soon as the differences are ironed out a conference report is submitted and voted upon by both Houses. This is reported out by the respective committee chairman on the floor for acceptance by each House.

Final Action — Finally the bill is then enrolled and is sent to the President for his approval. If he chooses to approve the bills, he signs it and it becomes a law. However,

if he deems it otherwise, he vetoes the same and sends it back to Congress with his grounds for objections. Unlike the practice in the United States, under our Constitution the President of the Philippines may also veto any particular item or items of an appropriation bill, but the veto shall not affect the item or items to which he does not object. When a provision of an appropriation bill affects one or more items of the same, the President cannot veto the provision without at the same time vetoing the particular item or items to which it relates. The item or items objected to shall not take effect except in the manner heretofore provided with regard to bills returned to the Congress without the approval of the President. However if two-thirds of all members of the House and the Senate agree to override the veto, then it becomes a law. The third way the bill becomes a law is when it is not returned by the President within twenty days (Sundays excepted) after it has been presented to him. It is considered as having been affixed with his signature. If Congress by adjournment prevents its return, the bill shall become a law within thirty days after adjournment, unless otherwise vetoed by the President.

7. Budget Execution and Auditing

Budget execution is the performance phase of the budget process. It deals with the management and administration of the enacted General Appropriation Act. Execution is a function of the Executive. The Budget Commission performs the leading role and the spending agencies support that office. To discharge their functions properly, the administrators follow a system which enables them to direct the work and which also provides a continuous and up-to-date review to assure that operations are proceeding according to programs and schedules.

In the first year of the Magsaysay Administration unbelievable progress was attained and felt in the field of public budgeting. The execution phase of the budget process is an example. In the previous years budgetary controls were based substantially on the existing laws and rules; the submission of monthly and quarterly statements; power of transfer; the submission of special budgets for lump sum appropriations; and the efforts of the Fund Release Committee.

OUR NATIONAL BUDGET PROCEDURE

Under the present administration, the Budget Commission, besides retaining some of the useful devices mentioned above, has engaged the services of American management consultants like the Kroeger and Associates and Booz, Allen and Hamilton to improve the management and budget practices of public administration in this country.

The most outstanding piece of legislation enacted in the first regular session of the Third Congress was Republic Act 992 otherwise known as the Revised Budget Act. The portion on budget execution and control introduces a system of allotment. The system which is similar to the U. S. apportionment system is designed to prevent the incurrence of deficits by requiring the heads of the spending agencies to submit to the Budget Commissioner a request for quarterly allotment of funds showing the estimated amounts of funds needed for each function, activity, or purpose for which the funds are to be expended during the applicable allotment period.

Recently, the spending agencies were required to create budgetary reserves against appropriations to provide for contingencies and emergencies which may arise later in the fiscal year and which would otherwise require a deficiency appropriation.

Specific information about the progress of agency spending is secured by a government-wide system of financial reporting.

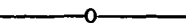
Auditing in the Philippines is the job for the Auditor General, a constitutional officer, who heads the General Auditing Office. Like his American counterpart, the Comptroller General in the Federal Government, he is responsible to the Congress for the proper auditing of the finances of the government.

8. *Conclusion*

In actual practice, modern governments have as a rule made the executive responsible for the formulation of the budget, ranging all the way from preparation of an initial financial plan to full execution and control. This is accepted by authorities because the executive is the center of the government and that it is in a better position to feel public needs and desires through its smallest unit. At the same time, present-day prac-

tice tends to focus the attention of Congress more and more upon the examination, criticism, and approval of budgetary proposals submitted by the executive.

Our budgets should be understood by all to have been formulated and enacted after careful consideration of the welfare of the people and the economy as a whole. While we accepted the more or less detailed "line-item" budget as an answer to sound budgeting in the past, we have now come to realize that our ever-expanding economy and increasing population require a more responsible budget to cope with the expanded activities. The Revised Budget Act is an acceptance of this realization and is the law which will shift public budgeting from line-itemization to a performance basis. In such manner we can determine whether the scarce resources available to the government are being allocated for the maximum welfare of its citizens.



REFERENCES

- ¹ Buck, A. E. 1934. The budget in governments of today, pp. 4-5.
- ² Yoingco, A. Q. 1953. Notes on fiscal administration (unpublished report to the FOA).
- ³ Taylor, Philip E. 1948. The Economics of public finance, p. 17.
- ⁴ A *line-item* budget is a type of budget where every appropriation is broken down into salaries and wages, sundry expenses and furniture and equipment.
- ⁵ Shultz, William J. and C. Lowell Harriss. 1949. American Public Finance, p. 135.
- ⁶ The budget submitted for the fiscal year 1955 has three parts for its main body—general fund, special funds and fiduciary funds—classified according to sources of financing. The ordinary and extraordinary expenditures are retained and reflected under the proposals of the requesting agencies.
- ⁷ Dizon, Fernando. 1954. Unpublished paper entitled: Formulation of the budget in the Philippine national government.
- ⁸ Up to 1954, the "line" agencies except the government enterprises do not have budget officers. The Administrative officer and the Accounting officer act as budget people.
- ⁹ Yoingco, A. U. 1953. A comparative Study of New York State and Philippine Budgetary processes. (Unpublished paper)

