

Course Learning Outcomes for Unit VI

Upon completion of this unit, students should be able to:

6. Deduce the viability of collaboration and coordination theories related to financial accountability and agency transparency in public agencies.
 - 6.1 Consider how public agencies are accountable to the citizenry when using public funding.

Course/Unit Learning Outcomes	Learning Activity
6.1	Unit Lesson Article 38: Public Budgeting Amidst Uncertainty and Instability (1981) Naomi Caiden, p. 410 Article 49: Using Performance Measures in the Federal Budgeting Process (1993) U.S. Congressional Budget Office, p. 522 Video: <i>Using Fiscal Policy to Stabilize the Economy</i> Video: <i>President Obama Presents Record-Breaking Budget</i> Unit VI Essay

Required Unit Resources

Article 38: Public Budgeting Amidst Uncertainty and Instability (1981) Naomi Caiden, p. 410

Article 49: Using Performance Measures in the Federal Budgeting Process (1993) U.S. Congressional Budget Office, p. 522

In order to access the following resources, click the links below.

Annenberg Learner (Producer). (2012). [Using fiscal policy to stabilize the economy \(Segment 8 of 13\) \[Video file\]](https://libraryresources.columbiasouthern.edu/login?auth=CAS&url=http://fod.infobase.com/PortalPlays.aspx?wld=273866&xtid=113438&luid=411653). Retrieved from <https://libraryresources.columbiasouthern.edu/login?auth=CAS&url=http://fod.infobase.com/PortalPlays.aspx?wld=273866&xtid=113438&luid=411653>

The transcript for this video can be found by clicking the "Transcript" tab to the right of the video in the Films on Demand database.

Associated Press. (2019). [President Obama presents record-breaking budget \[Video\]](http://link.galegroup.com/apps/doc/CT3208590200/PPUS?u=oran95108&sid=PPUS&xid=d48697a5). Retrieved from <http://link.galegroup.com/apps/doc/CT3208590200/PPUS?u=oran95108&sid=PPUS&xid=d48697a5>

Transcript for [President Obama Presents Record-Breaking Budget video](#)

Unit Lesson

Introduction

Welcome to Unit VI. The goal of this unit is to help you understand that the art of financial management must be a transparent process that reflects accountability and control. The government financial field requires special attention from public leaders because the negative implications will occur from poor financial decisions. Financial accountability is required due to the factors listed below.

1. Local and state governments are a major part of the overall U.S. economy.
2. The government provides integrated support services to schools, public safety, and transportation.

3. Some of the sub-programs funded by local or state governments are carried through to federal policy.
4. The unique diversities at the local and state levels can affect economic decisions at the federal level.



Full moon over Washington, D.C.
(Skeeze, 2012)

This unit will also review the different principles of financial accountability, explain why transparency is required when using different taxes to fund public programs, and explain why earmarks, public expenditures, and deficits are important components when managing funds that sustain the U.S. economy.

The Theories of Financial Management

The accountability theories for financial management encompass the important concepts of accountability and transparency. One example of this historical stance first started with the Boston Tea Party in 1773. The tea that was thrown overboard and landed at the bottom of Boston Harbor represented a cardinal value. The notion of “no taxation without representation” set a precedent for financial accountability in the early years (Boston Tea Party, n.d.). This action provided a strong future message that public spending is a function agreed on and sanctioned by public leadership. At the time, local and state governments had the leniency to spend tax money as public leadership saw fit. Early founders established a framework to have a democratic process put in place. The end result, which is now established in the U.S. Constitution, references that the legislative branch must represent the will of the public (Yourish & Stanton, n.d.). Yourish and Stanton (n.d.) advocate that this design process purposely has several principles in place that assure financial accountability. The principles are listed below.

- *Democratic permissions*: This is the ability to only have elected officials take part in the decision-making spending for public projects.
- *Impartiality*: This means treating all citizens fairly and not showing favoritism when allocating public spending for programs or projects.
- *Accountability*: This is the ability to have citizens preview government gains and spending—examination should not be open to only government officials.
- *Integrity*: Scrutiny must be observed to ensure that public decision-makers spend resources that represent the citizenry and not public leaders
- *Discretion*: The public leaders using funds should carefully weigh spending decisions.
- *Transparency*: Audit procedures and government panels should take an active role, ensuring that all government spending is reviewed for accountability.

All too often, these concepts are overlooked and sometimes abused or traded for favoritism and/or political reasons of partiality. The government can incur substantial loss due to overpriced products or contracted services. Other than certain intelligence services, government spending should be an open-door process.

Public Financial Management and Transparency

The primary functionalities of public expenditures fall into the three categories of saving, spending, and taxing. Some states do not spend all of the money allocated in a particular budget because contingency funds are not utilized. Another challenge that occurs year after year is the projection of income taxes. Because economies are cyclical in nature, city or states may produce a large number of jobs, which results in tax base increases. Of course, economic downturns also affect income tax in a negative way as well. Budget-makers must be prudent and realistic by not painting a rosy picture of a continuous economic boom, thus planning public projects that are above and beyond financial reasoning. The effort to match revenue and spending in the coming year must not be considered too optimistic or shortsighted. Choices are limited, and the

government must use ingenuity when bringing in revenue for governing. The different types of taxes produce minimum choices for financing government functions, which are listed below.

- *Direct tax*: When citizens pay taxes directly to the government (e.g., federal income tax)
- *Indirect tax*: When taxes are paid to a third-party who then pays the government
- *Grants*: When money is received from other levels of government
- *Profit*: When profit is gained from selling government sources
- *Borrowing money*: When money is derived from issuing treasury bonds or notes
- *Earning interest on investments*: When loans are issued (e.g., student loan programs)
- *Public private partnerships*: When social programs are also funded by businesses ("Types of Taxes," n.d.).

More adverse options still exist to obtain services, such as privatization choices, if or when cost-cutting measures will save the government money. Revision or termination of programs also provide viable options for governments to consider when cost savings must be adopted.

Federal Budget Method: Is This the Best Process?

The current system of allocating, approving, and spending funds can be interpreted as a political struggle for some. Congressional requests for funding can be heard on many news channels when the process starts and posturing for program support is desired. It seems each public leader wants to fund programs for his or her individual state. Though challenging, obtaining funding can also be achieved by earmarks and expenditures. Some politics do come into play with using these processes because these key funding issues are tied to budget deficit management.

Earmarks

Political support is usually a two-way street. Political party leaders need votes to pass bills that eventually become law. In return, some state politicians receive funds to support particular projects in their home states. The earmark is a designated pot of government money that will support this effort. The beauty of the earmarking is that scrutiny from fellow politicians is not usually discussed or debated. Some critics of the process claim that earmarking is not the best use of tax dollars; it may be questioned if these dollars actually support the citizenry or lobbyist that represents certain industries.

Expenditures

Mandatory and discretionary funding are the two categories involved with expenditures. Examples of mandatory spending include entitlements such as Medicare or funding for Social Security. These conditions provide the mandatory payment to qualified citizens. Discretionary spending references the normal funding for federal agencies' operating costs. Agencies such as the U.S. Department of the Interior, U.S. Department of Homeland Security (DHS), the Environmental Protection Agency (EPA), Internal Revenue Service (IRS), and others all fall under the discretionary category. Discretionary really means that public funding goes through an approval process (e.g., appropriation committees) instead of automatically being funded because the federal agency wants the funding.

Budget Deficits

The art of balancing government resources between public and private allocations is certainly part of the planning and management segment of financial management. The economist John Maynard Keynes claimed that stabilizing the government required economic growth and less unemployment (Posner, 2009). However, he also advocated that a budget deficit was a healthy option because it meant that more money is placed in circulation, thus having the resources to create demand for products and services. The population (with the money to spend) would assist in keeping the economy strong. The opposite effect would then occur if inflation were reduced from a monetary perspective by raising interest rates; the purchasing of goods and services would be reduced, leading to lower economic growth. Not everyone agrees with the philosophy of Keynesian economics. Positive or negative, one element to blame for a budget deficit is economic recession (Posner, 2009). Deficits have been a long-term subject each time a new administration moves into the White House. President Reagan tried to commit to smaller government and lower taxes to help stimulate growth. Presidents George H.W. Bush, Bill Clinton, and George W. Bush all found out that reducing government expenditures was more difficult than reducing taxes. Today, globalization can have an effect on the deficit (and help)

because less expensive goods can make products affordable for consumers, though the quality of those products may be argued. Last, *budget deficit* versus *federal debt* needs to be clarified. When referencing deficits, the time period only references one year at time, whereas the federal debt is the ongoing accumulation of debt over time (Amadeo, 2018).

Financial Structure and Accountability

Financial control structures can also be used as cultural tools influencing organizational behavior. Public managers must reflect a clear sense of purpose when planning or supporting government projects. This attitude helps to increase and support a shared vision within the government agency. Public leaders quickly find out that tracking expenditures is much easier than influencing constituents and government colleagues, especially when attempting to fund controversial programs that only support a minority group. Seeking to reduce the unknowns or risks should be at the heart of each financial decision, thus increasing the probability of success, though it cannot be guaranteed.

Summary

The principles of financial accountability start with knowing the different sources of government revenue and knowing the rules regarding how to acquire, allocate, and spend public funding. The accountability and transparency factors are also a function of informing, supporting, and persuading constituents what public programs will be funded. Public leaders must also know the implications of financial oversight and learn how to effectively use earmarks, understand the applications of expenditures types, and distinguish the economic associations to budget deficits and the federal debt. Last, the public leader must measure risk when making financial decisions. Citizens expect an attitude of transparency from the decision-maker who is prepared to defend the programs that will be supported as well as the programs that will not be funded.

References

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Suggested Unit Resources

In order to access the following resource, click the link below.

Unit VI discusses best and fair practices for funding various public services in a fair manner. As depicted in the video segment, funding also applies to providing resources to potential public candidates—so they have the means to communicate to the citizenry before voting occurs. A tiny fraction of the U.S. selects candidates. In this video, Larry Lessig believes campaign finance reform should be framed not in terms of equality of speech, but in terms of citizenship equality.

Ablow, G., Kim, G., White, C. (Producers), & Badger, A. E. (Director). (2014). *Public campaign finance model* (Segment 8 of 20) [Video file]. Retrieved from <https://libraryresources.columbiasouthern.edu/login?auth=CAS&url=http://fod.infobase.com/PortalPlayslists.aspx?wID=273866&xtid=66046&luid=322720>

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