Notes on Program Budgeting Concepts And Methodologies

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•IT HAS been said (1) that all budgets serve three purposes in the organizations they belong to—namely,

1. Strategic planning,
2. Management control, and
3. Operational control.

This paper will cover only the first of these purposes, since if anything is new about PPBS it is in its emphasis on strategic planning for resource allocation. And as an economist, I will concentrate on a few key features in economic analysis for such strategic planning.

Everyone would agree that there is a large gap between our ideals of a good society and the resources available to us for striving after those ideals. Resources are hard, tangible, and measurable things—like men, equipment, land, natural resources, and a great array of goods and services available to the economy. Ideals are vague, nebulous, intangible, not measurable—like national security, equal opportunity, environmental quality, law, and order. In practice, to get a grasp on resource allocation decisions, some intermediaries are necessary to relate resources to ideals. The PPB system attempts to span that gap by classifying, organizing, and analyzing government activities as shown schematically in Figure 1 with an example from the nuclear defense programs. Resources lead to programs, which in turn lead to outputs, which in turn lead to objectives, which themselves are surrogates for larger social ideals. The guiding principle of organization in this way is to relate specific resources uniquely to specific results.

Within a program structure or organization like this, analysis leading to resource allocation recommendations and decisions should be carried out at all stages. A few examples of the types of questions for analysis at each stage are listed in Figure 1.

What is the point of such analysis? To the economist there are four overall questions to be answered in any resource allocation problem:

1. Should a program be undertaken?
2. How much should be allocated to it?
3. What should be the composition of the program?
4. When should the allocation be made?

The very asking of these questions—not to say answering them—suggests the "global" viewpoint of strategic resource planning, in contrast to the incremental approach of traditional incremental budgeting (which asks how much a particular program should be increased or decreased).

Let us turn now to an attempt to use the foregoing classification on transportation programs. Figure 2 shows a simplified format for transportation programs on the assumption that the sole objective is to meet consumer demand (estimated from consumer surveys, for example).

The format is simple—like the defense format in Figure 1—and the same sorts of questions arise for analysis. Now suppose you make this representation more realistic

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BUDGET ORGANIZATION FOR RESOURCE ALLOCATION PLANNING

Resources →	Programs →	Missions or Program Outputs →	Objectives

EXAMPLE FROM DEFENSE PROGRAMS

Men Money Weapons	Bombers Polaris Minuteman	Destruction Caused on Enemy	Deterrence of Attack

PROBLEMS FOR ANALYSIS

Are all related costs included and properly counted? Do the costs relate to the programs?	Does the program contribute to the mission or output? Efficient program design? Comparison of alternatives? Proper balance among programs?	Destruction of what? Is this the correct mission? Does it contribute to the objective? How much?	Are these the correct objectives?

Figure 1.

Resources →	Programs →	Outputs →	Objectives
Men	Rail	Transportation of	Meet
Trust Funds	Air	Passengers	Consumer
Local Shares	Highway	and Goods	Demand

Figure 2.

by including the facts that transportation affects more than one general objective. Other plausible objectives are:

1. Investment for economic development,
2. Labor mobility for poor,
3. Access to inner city, and
4. Equalization of services to poor.

Each new objective added expands the problem of analysis for resource allocation by another dimension. The addition of more objectives means that each and every stage in the analysis, all the way back to the transportation system design, must be reanalyzed and probably changed. And the damage this allowance for multiple objectives causes does not end here. Since transportation objectives extend to non-transportation areas, other agencies' actions will influence the payoffs to transportation expenditure; hence it will prove impossible to relate specific resources uniquely to specific objectives. This is a problem typical of domestic (contrasted to defense) programs—how to organize for resource allocation planning, when widely diverse programs interact.

REFERENCE

1. Anthony, Robert N. Planning and Control Systems: A Framework for Analysis. p. 9-10, Boston, 1965.