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THE METAMORPHOSES OF PERFORMANCE BUDGETING

BY ALLEN SCHICK

Performance budgeting (PB) has had a charmed existence since it emerged as a key driver of budgetary innovation in the United States more than 60 years ago.¹ Often tried but rarely successful (in terms of their lofty objectives), PB initiatives typically have had an elevated mortality rate, though they have often reappeared, sometimes in a different form and with a new label. Yet, despite its well-documented provenance and checkered past, PB still invokes wonder, as if it were a novel, experimental approach that must be designed anew and explained every time a government attempts to focus budgeting on results. PB has had many lives, sufficiently dissimilar from one another to excite the imagination that this time will be different, that the latest iteration will be truly transformative.

Its various forms in the metamorphoses of performance budgeting give the paper its title and embolden governments to ignore (and occasionally disown) previous innovations, and to confidently claim they are breaking new ground in orienting public expenditures to results. The paper focuses on contemporary PB transformations, explains their rationale and objectives, and assesses their prospects. Because PB defies standardization and countries differ in their approaches, the versions discussed here do not fit all venues, nor would all observers agree that they are sufficiently distinguishable from one another to warrant distinctive labels. Some basic features, such as the emphasis on measurable results, cut across all mutations of PB, though the way they are framed or applied may differ among the various approaches.

The following thumbnail descriptions of six variants show enormous range in PB's purpose and application. The variants may be regarded either as substitutes for one another or as complements that can be combined in a system that integrates performance management and budgeting, feeds evaluations and reviews into resource allocations, requires suitable measures of results, and opens the process to citizen participation and oversight. It is nevertheless useful to separately identify salient PB variants and to assess their distinctive contributions to government performance. Each of the variants sketched here is discussed more fully in later sections of the paper.

The paper classifies the innovations into three categories: *core PB* reforms that aim to change way budgets are prepared and implemented; *extenders* that are outside the cyclical procedures of budgeting, but seek to influence program and budget decisions; and *offshoots* whose principal objectives are outside the budget framework.

Core PB

- Two models of PB are vying for preeminence in the contemporary study and practice of performance budgeting. One strives for budget allocations firmly based on actual or expected results, the other aims for budgets informed by data on results. The former finds fullest expression in formula-based allocations, the latter inserts relevant information on outcomes, outputs or other variables into key budget statements. Proponents of performance informed budgeting regard it as the optimal approach, not as a second-best concession to budgetary realities. Those who favor performance-driven budgets regard this as essential to compel governments to give primacy to results in spending public money.

¹ Performance budgeting was the label applied by the first Hoover Commission in 1949 to its recommendation that U.S. budget should be “based upon functions, activities and projects...” *U.S. Commission on Organization of the Executive Branch of the Government, Government and Accounting* (Government Printing Office, 1949) p. 8.

Extenders

- PB has become an elastic label that is stretched to encompass a wide range of processes that purport to expand fiscal space, improve public services and administrative efficiency, review government programs, and spur reallocation of budgeted funds. This approach aims to integrate discrete innovations under the performance budgeting umbrella, and to thereby harmonize the separate reforms and their data requirements. PB-extenders include program evaluation, spending reviews, and other initiatives that appear in the next several paragraphs.
- PB is increasingly viewed as a subset of performance management rather than simply as a process for spending public money. In contrast to earlier approaches that carved out budgeting as a separate process, it is now widely understood that governments cannot budget for results unless they manage for results. This expansion in its scope complicates the task of implementing PB, but enhances its potential to improve government programs and operations. It also subordinates PB to other management reforms.

Offshoots

- PB often is molded into a policy monitoring instrument that bolsters the capacity of top policymakers to track socioeconomic trends and other vital signs, as well as progress in achieving preset objectives and targets. When used to adjust policies and allocate resources, monitoring has the potential to transform PB from a technical exercise into a process that engages the attention of political leaders and fluidly feeds updated information on results into policy and budget actions.
- Contemporary PB systems strive to use information on policy results and socioeconomic outcomes to hold political leaders and program managers accountable for spending decisions and other policies. The shift to ex-post accountability depends on the availability of timely and reliable performance information, as well as on fundamental changes in the orientation and capacity of audit or other oversight agencies.
- PB has been linked by some (mostly subnational) governments to forms of participatory budgeting that empower citizens (or groups) to make or recommend spending decisions. The expectation is that armed with information on actual or prospective results, citizens will more likely act in the public interest rather than on the basis of parochial influences. This version of PB has strong political implications that go beyond issues concerning the efficiency or effectiveness of public expenditure.
- Evidently, PB has multiple forms, not all of which tie directly to budget work. This is not a new condition; even during its early years, observers noted that PB has many versions and that the term means different things to different governments.² Of course, performance and results are PB's universal markers, but how they are defined and measured varies among governments. What is notable are efforts to extend its reach to fundamental policy, managerial and political processes

PB's transformations are in sharp contrast to the near-permanence of basic routines for preparing and implementing the budget that continue year after year with little or no change. The fact that PB is frequently reinvented indicates that it has not been incorporated into the core processes of budgeting.

² Almost half a century ago, Jesse Burkhead observed, "There is no precise definition for performance budgeting. It has come to mean something different in every jurisdiction which puts it into operation. Jesse Burkhead, Government Budgeting (John Wiley & Sons, 1956), p. 139

Except in countries where it is prescribed by legislation, the installation PB often is provisional and subject to frequent adjustment. Even when its arrival is accompanied by political fanfare and self-congratulatory acclaim, PB appears to be perennially on trial and uncertain of its staying power. Whether because a new government is seated or new reforms become more fashionable, PB is likely to be replaced in due course by a later version, which rather than acknowledging its debt to previous performance-oriented initiatives stakes claim to be breaking virgin ground.

Why have PB reforms been so fragile, and why is one round of reform frequently followed by another, with little recognition of previous performance-oriented innovations? The short answer to the first part of the question is that PB is hard work; one year's success doesn't assure the next year's, and one year's costly investment in data collection and analysis does not obviate the need for additional investments the next year. The short answer to the second part is that spending money on the basis of performance is such a compelling idea that neither failure nor disappointment deter reform-minded politicians and managers from pursuing it. Failure or disappointment embolden a new cadre of politicians or managers to try again.

The metamorphoses of performance budgeting are a compound of two conflicting perspectives: the widely-held, self-evident, belief that spending decisions are more rational and efficient when they are based on results; and a conviction that current or previous performance-based reforms have fallen short of the mark. Together, these sentiments propel governments to devise new versions of performance budgeting. This is something almost Sisyphean in the dogged determination to try to make PB work better next time. However, the succession of PB-type innovations is not just a random walk; each version of PB outlined at the start of this paper bears the imprint of its times, and each has been shaped by changing ideas and experiences concerning the relationship between budgeting and other political or managerial processes.³

The paper discusses and assesses each version of PB in the light of the circumstances that gave rise to it. The first variant – performance-informed budgeting (PIB) – challenges the notion that the budget should explicitly link increments in resources to increments in results. Although it is feasible for a country to have performance-driven budgets for some programs and performance-informed budgets for others, governments that seek to implement PB must decide how tightly decisions on resources should be tethered to evidence on results. There are, to be sure, many variants between budgets in which results are determinative and those in which results are merely indicative. Nevertheless, the fact that PIB advocates view it as superior to results-driven budgets suggests that the two versions rest on conflicting views of how governments should organize budgeting to optimize the allocation of its financial resources. Because the outcome of this clash will influence the future evolution of PB, the paper gives it closer scrutiny than is accorded to the other versions. Two critical questions shape the discussion: with respect to resources-results linked budgeting, is it workable in the political environment within which spending decisions are made? And with respect to performance-informed budgeting, can it have a significant impact on how public funds are allocated?

The other versions are extenders or offshoots and can be grafted onto either performance-determined or performance-informed budgets. For example, extending the drive for performance to other management processes or subjecting performance measurements and evaluations to independent audit potentially enhances achievement of basic PB objectives. These ancillary versions give rise to a different set of questions: how can they be implemented, and do they make PB a more useful instrument for policymakers, managers or civil society?

³ Charles Beard, an eminent American historian, observed during the dawn of modern budgeting almost a century ago that “budget reform bears the imprint of the age in which it originated.” Charles A. Beard, “Prefatory Note,” in Arnold Lahee, “The New York City Budget”, Municipal Research, vol 88 (1917) p. 95.

Before addressing these questions, the paper reconstructs the primordial concept of performance budgeting, the simple ideas and expectations that gave rise to the label when it first emerged in the United States more than 60 years ago. Section 1 probes what preceded PB, what did it try to replace, was it successful, and, if not, why did it fall short? The answers to these questions may startle or disappoint those new to the PB movement, but they may comfort those who sense that governments do not require formal PB arrangements to perform public responsibilities well. Section 2 plunges into the ongoing clash between results-linked and performance-informed budgeting. It should come as no surprise that underlying this debate are conflicting views of how contemporary democracies should operate in allocating public resources. Section 3 discusses performance-enhancing processes such as program evaluation and fundamental spending reviews. A key issue is whether these processes contribute more to performance when they are carried out independently or when they are hard-wired to the budget. Section 4 makes the once-neglected, but now widely-accepted point that budgeting cannot be split off from other management processes and that realizing PB's ambitions may depend on a broad overhaul of managerial culture and practices. Section 5 discusses the policy monitoring variant of PB, and sections 6 and 7 consider the final two variants: accountability and citizen empowerment. These are two sides of the same objective – to make government more open and responsive in spending public money and creating public value. The concluding section reflects on why PB has given rise to multiple extenders and offshoots. The performance concept might fade away for a while, but it will not disappear. The lure of performance has become the Holy Grail of budgeting.

1. WHY PERFORMANCE BUDGETING ARRIVED AND WHY IT HAS NOT SUCCEEDED

The original aim of PB, in the United States, as well as in other countries that adopted this innovation, was to purge budgeting of its line-item focus on the cost of inputs and to base spending decisions on the work to be performed. It bears remembering that most OECD countries once had highly itemized budgets, with expenditures structured into detailed classifications of personnel, supplies, travel, equipment and other goods and services purchased by governments. In some countries, national budgets were long shopping lists, bereft of explanations of what the items would be used for; in others, the budget had narrative descriptions of government activities, but little explanation of what they were expected to accomplish.

PB proponents argued that line item budgeting impedes government performance by (a) basing allocations on the cost of inputs rather than on the work being performed, and (b) by compelling government agencies to comply with burdensome spending rules that constrict managerial discretion. As logical as this argument sounds, there often is less difference between input-based and performance-based budgets than appears on paper. It rarely is feasible for governments to prepare or implement administrative budgets without due consideration of the cost of inputs. A few countries have tried, most notably New Zealand which has had output-class budgets since the early 1990s and Australia which tried an “accrual output budgeting” system in the late 1990s.⁴ New Zealand still has its output based system, Australia does not. But even when inputs are removed from the budget document, they still hover over expenditure decisions. Purging the budget of all input information is risky because it is difficult, sometimes impossible, to determine whether the amounts budgeted by government are optimal when it lacks market prices or data on the cost of inputs. In the pursuit of performance, spending units need input information to carry out assigned activities and accomplish planned results. Line items detail does not occupy center stage, but it does not disappear from budget discussions.

Detailed line items lost their grip on budget allocations, not because of the spread of PB but because of the vast postwar expansion in the scale of public expenditure. As public spending escalated, individual line items receded in importance and no longer were useful instruments of expenditure control. Over time, OECD countries consolidated line items into a few broad categories, for example, by collapsing various types of supplies or job titles into a single line.⁵ However they still pay attention to the wage bill and to other major expenditure categories in deciding how much to allocate to administrative units. The line items have not vanished from budgeting; they have retreated to the internal accounts of operating agencies, which prepare and implement their budgets with a vigilant eye on the funds required to cover the cost of inputs, most of which are fixed in the salaries of public employees and other legal or political commitments.

While the persistence of input-based budgeting runs counter to the rationale of PB, it has not impeded the spread of a performance culture in government. Efforts to take account of results took hold in many OECD countries long before the formal advent of PB, as evidenced by their astounding progress in universalizing public education, controlling infectious diseases, building modern roads, establishing basic income

⁴ The New Zealand model is described in Allen Schick, The Spirit of Reform: Managing the New Zealand State Sector in a Time of Change, State Services Commission, 1996

Australia’s approach is discussed in Joanne Kelly and John Wanna, “Crashing Through With Accrual-Output Price Budgeting in Australia”, American Review of Public Administration, vol. 34 (2004) pp. 94-111.

⁵ This trend is discussed in Allen Schick, Evolution in Budgetary Practice, Chapter 2, “The Control and Management of Government Expenditure: Comparing Country Experiences,” (OECD, 2009)

supports, and creating prosperous societies during the decades before the first formal PB systems were launched. It is important to understand that national governments managed to achieve these and other extraordinary results even though they lacked performance budgets and made spending decisions through the lenses of input-saturated accounts.

Governments performed well during the pre-PB era not despite line item, control-fixated budgeting, but because of it. Input budgeting established the rules and routines of financial control, the notion that money should be spent only as authorized in law, and should be accurately accounted for. These norms are essential building blocks for PB. Without them, budgets risk being unreliable statements of government finance; with them, governments can produce substantial results, regardless of the form of budgeting they have.

The unconventional truth is that a performing government depends more on the behavior of politicians and civil servants than on the format of its budget, more on managerial skill than on dexterity in measurement, more on the professionalism of public employees than on performance bonuses and other financial incentives.⁶ This is why early adopters of performance -type budgeting were among the best managed countries in the world. They were ready for PB; others were not. Early PB was in step with the times because government was taking on new responsibilities, its program and financial footprints were expanding, and political leaders and reformers were confident that orientation to results would enable government to intelligently allocate the dividends of economic growth. As later waves of innovation shaped budget perspectives, PB was joined by program budgeting, a reform that sought to align budget decisions with government objectives, by planning-programming-budgeting systems that sought to rationalize budget decisions by means of economic and policy analysis, and by zero-based budgeting that claimed to extend the logic of results to existing spending levels, not just to the increments. While first generation PB was content with measuring outputs, later generations demanded attention to outcomes and impacts.

The multiple waves of reform have had overlapping agendas and common tools. They were fueled by confidence in the capacity of government to produce rational, efficient policies and results, but they faded when economic and political conditions soured, growth dividends vanished and public trust in government plummeted. This is not to say that political and economic obstacles fully explain the disappointing fate of first-generation reforms. Other factors, such as overloaded reform agendas, burdensome informational and analytic requirements, and inadequate political and managerial support repeatedly undermined efforts to recast budgeting into the driver of improved government performance.

Political and economic conditions that prevailed at the dawn of PB were fundamentally different from those that dominate the landscape during PB's current revival. Instead of growth dividends, governments now face shrinking fiscal space as economies stagnate and debt levels rise. Old commitments and new demographic pressures claim almost all available resources, and in some fiscally-stressed countries more than is available. Rather than being an allocative process, contemporary PB seems more likely to strive for reallocation, to shift money from less to more productive uses, and to do so at a time when interests groups are effectively mobilized to protect their benefits and citizens in many OECD countries, and hold political leaders and institutions in low regard.

The take away messages from this limited historical window into performance budgeting's first arrival are (1) PB is a tough sell in good times and harder in bad times; (2) by itself PB cannot compensate for a shortage of fiscal space; (3) PB cannot reverse the decline in public trust, but it is hamstrung by low regard

⁶ This argument is elaborated in Allen Schick, "The Performing State: Reflections on an Idea Whose Time Has Come But Whose Implementation Has Not, Chapter 10, *ibid*.

for political leaders and institutions; (4) robust growth would improve the political market for PB-driven budget allocations, but PB cannot itself ignite needed growth; (5) valuing performance yields better results than merely going through the procedural motions of PB; and (6) purging input data is not a precondition for effective implementation of PB, but consolidating line items may be.

Note that this account does not find that previous PB efforts failed; rather, they faded away, but not before bequeathing some changes in budget practices, in particular, greater attention to measurable results in many countries and more recourse to policy analysis and program evaluation in some. It would not be a stretch to conclude that first-generation PB altered conceptions of good budgeting. It thereby paved the way for expanded iterations of performance budgeting, including the contemporary variety of approaches.

At first glance, it appears that the main advance in PB processes has been in the sophistication of performance measurement. This certainly is PB's most conspicuous characteristic. Governments at all levels and in many countries have invested enormous amounts to define outputs, outcomes, impacts, benefits, targets, and so on. With few exceptions, however, PB has not become the government's budget process. It is an accessory to the budget; it adorns and enhances budget decisions, but does not fundamentally change the way they are made. Going forward, the key question is whether PB can become the process for allocating resources and targeting results.

2. PB: THE INFORMATION-ALLOCATION CONTINUUM

PB's status as an accessory to budgeting has given rise to ongoing debate over whether its principal aim should be to enrich the supply of information to budget makers or to change the way budgets are decided. The lines of disagreement were drawn in two prominent books, both published in 2007, that examined performance budgeting in an international perspective. One was issued by OECD and drew from a survey of Member countries and case studies to argue for performance-informed budgeting. The other was assembled by Marc Robinson, a former IMF official, who favors the explicit linkage of resources and results. As the title to this section shows, the present writer considers it useful to view the information versus allocation distinction along a continuum that has numerous shadings rather than as either-or categories.

The OECD report endorses the PIB approach; its opening paragraph notes

a resurgence of efforts by the governments of OECD countries to introduce performance information into their budget processes. The central aim of this reform is to improve decision making by providing better quality and more concrete information on the performance of agencies and programmes.⁷

In this book and in subsequent reports, OECD has identified three varieties of PB. (1) "Presentational" PB—the information does not play a role in spending decisions, though it may be used to promote accountability and public discussion of policies. (2) "Performance-informed budgets" — there is no automatic linkage between performance and funding levels. The weight given performance information depends on particular circumstances. (3) "Direct" PB explicitly links budget allocations to units of performance.⁸ While acknowledging that there are salient differences between information that serves merely as background, and information formatted for use by decision makers, this paper prefers a bipolar continuum that recognizes enormous variation in the actual utilization of performance information. The line between presenting and using performance information can be quite thin; even within the same country, actual use may vary from one ministry to another or from one year to the next. How should one classify a country that intends to apply performance information to budget allocations but in the hectic rush to complete the budget fails to do so? Conversely, discrete classifications do not fit countries that publish information only as background but end up basing some allocations on results. On the one hand, information on results often influences expenditure decisions, not always formally or at once, but more likely over time. On the other hand, determining spending levels solely on the basis of quantified results is rare except in formula-based budgeting. Classifying PB into discrete categories makes it appear that these differences are clear-cut; they are not.

In congruence with OECD, Robinson concedes that “performance budgeting is not monolithic”; there “are different forms of performance budgeting which seek to link resources and funding in different ways”.⁹ Despite this ecumenical view, he defines performance budgeting as “mechanisms and processes designed to strengthen the linkage between funding and results through the systematic use of formal performance

⁷ OECD, Performance Budgeting in OECD Countries, 2007, p. 11

⁸ Ibid., p. 21

⁹ Marc Robinson, Performance Budgeting: Linking Funding and Results, International Monetary Fund (published by Palgrave Macmillan) 2007, p. 113

information.”¹⁰ Robinson argues that linking resources and results requires fundamental changes in budget practices; just enriching the supply of information will not suffice. He insists that performance budgeting is unlikely to succeed “unless the budget process is reformed by the inclusion of mechanisms and procedures which ... facilitate the effective use of performance information in allocative decisions.”¹¹ Robinson yearns for PB to transform budgeting, OECD see it as informing decisions.

Comparing these approaches, one can readily identify the two poles of the continuum, with background information at one end and formula-based allocations at the other. Most OECD countries lie between these poles, but it makes a great deal of difference whether a country organizes budget work to systematically feed results into decisions or merely makes the information available.

PB in OECD countries. During the past decade, OECD has periodically surveyed Member countries on their use of PB and other modern budget mechanisms. The most recent (2011-2012) survey focused on the extent to which PB and other mechanisms (top-down decisions, spending reviews, and productivity dividends) facilitate short-term austerity measures and medium to long-term expenditure reallocation.

Based on responses to the latest questionnaire, approximately two-thirds of OECD countries have issued guidelines and definitions for performance budgeting, and slightly fewer have standard methods for reporting performance information to the central budget authority. However, barely a handful of countries have a performance rating system or a standard set of performance indicators or targets. In most OECD countries, line ministries, not central agencies, have the lead role in generating and using performance information in the budget process. Overall, performance reports and program evaluations are used only occasionally in budget negotiations between line ministries and central budget agencies. When it enters into these negotiations, performance information is about as likely to be used to increase as to decrease spending, but rarely to eliminate programs.

What, then, do negotiators actually discuss in critical bilaterals between line ministries and central budget organs? OECD surveys do not explicitly address this question, but one may surmise that even when they do not focus on performance and results, negotiators have a lot to talk about. One perennial issue is the overall spending level, and within it allocations among major categories of expenditure. From the line ministry's side, negotiations almost certainly touch on the increases it must have and the cutbacks it cannot tolerate. Central negotiators stress the government's priorities and constraints, and sometimes propose initiatives that will enable them to freshen the budget. In the course of settling the budget, either side may draw on performance evidence to bolster their arguments, but they also may touch on cost issues, in particular the wage bill and other expenses.

It appears that the financial crisis and the austerity drives it has spawned have not swayed governments to emphasize performance issues in budget negotiations. In comparing its precrisis (2007) and 2011-2012 surveys, OECD found a marked increase in the role of Line Ministries and agencies as the main institutions responsible for setting performance targets. Moreover, there is lessened use of performance information in budget negotiations and to a growing extent this information is not used at all.¹² Evidently, negotiators have other things on their minds when they are pressured by time and fiscal constraints to hammer out a budget agreement.

¹⁰ *Ibid.*, p. 1

¹¹ *Ibid.*, p. 114

¹² OECD, “Budgeting Levers, Strategic Agility and the Use of Performance Budgeting in 2011-2012”, Presented to the 8th Annual Meeting on Performance and Results, Working Party of Senior Budget Officials, 26-27 November 2012.

Performance as Information. Why doesn't results information weigh more heavily in budget work? Given large investments in measuring performance and collecting relevant data, why hasn't the expectation that better informed governments will make more effective use of public money been realized? Why is evidence on results often shunted aside in allocating scarce resources? The simple answer to these questions is summed up in the aphorism, "information is not transformation."

In both the private and public spheres, leaders and followers habitually ignore inconvenient truths and continue on their ways despite evidence that they are taking the wrong path. Of course, this saying does not ring true for PIB advocates, those who argue for versions of PB that make critical information available to budget people at key points in the process. Yet they acknowledge that an information-centered PB will have more favorable prospects when certain prerequisites are satisfied. For example, Hilton and Joyce specify two sets of preconditions for the successful implementation of performance-informed budgeting. "First, certain fundamental institutional and technocratic prerequisites must exist to support effective budgeting and financial management".¹³ These include timely budget adoption, forecasting and audit capacities, transparency and reliable accounting systems, adherence to the adopted budget, and avoidance of structural deficits. The second category consists of "necessary characteristics" and includes valid measures of performance, explicit and coherent goals, and reliable information on costs. The first set of preconditions deals with generalized budget capacity, the second with capacities directly relevant to PIB. This writer would add a professional, motivated public service and the normative underpinnings discussed earlier.

It is important to stress that in every country and at every level of government, both the reliability of and usefulness of performance information depend on the conditions under which PB is implemented. Without exception, performance-based reforms can be effective only in well-managed governments which have low corruption, elevated levels of public trust, highly-skilled and well-motivated public employees, reasonably efficient and accessible public services, attentive media and groups, and the freedom of citizens to communicate their concerns to government. PB cannot overcome or compensate for government failures; it has a chance to succeed only when conditions are favorable.

These preconditions may be useful guides in determining whether a country is ripe for PB-type reform, but they do not assure that an information-based strategy will succeed. Recognizing the preconditions required for introducing PB can counter the irrational exuberance of reform-minded consultants who pressure countries that lack basic financial and management capacities to introduce *avant garde* budget practices. But even when the conditions seem favorable, PIB can founder on the rocks of budgetary *realpolitik*.

The built-in tension between its two basic elements— performance and budgeting— impedes implementation of PIB. Performance is about change, spending money more efficiently or on different things; budgeting is mostly about continuity, spending money next year on activities financed in previous years. The essential purpose of measuring performance and identifying results is to question whether government is spending money on the right things and in the right ways. The process of putting together the next budget typically entails looking back at what was spent in the last budget and making small adjustments to accommodate price changes, political priorities and current or projected fiscal conditions . it is feasible to lessen friction between these clashing perspectives. The optimal way is to prepare the ground for performance-oriented changes in budget allocation through the determination and skill of political leaders and organization managers to get better or different results. The recent OECD survey indicates that these efforts may be more fruitful when they are processed through other actions rather than the budget, that is, when the budget is not the main driver of change but the means of accounting for changes made by

¹³ Rita Hilton & Philip Joyce, "Performance Informed Budgeting: A Global Reform," The Sage Handbook of Public Administration, pp. 835-63.

other means. Another way is to target performance efforts on marginal decisions in budgeting.. One practical means of accomplishing this is discussed in the next subsection.

There are multiple reasons why budgeting may not be the most effective means of feeding performance information into the policy stream. Information overload is a chronic problem in the time-compressed, deadline-driven world of budgeting. This chronic problem is exacerbated when PB adds new data, classifications and analyses to the old. Giving budget makers more data does not give them more time to complete their chores or more opportunity to resolve conflicts. They muddle through annual budget routines by paying attention to essential information and giving short shrift to information that only is good to have. This is not normally a conscious decision, but it enables them to make it from one budget cycle to the next. Much PIB-type information is good to have, but not essential to the ongoing operation of government departments and activities.

National governments have become information generating machines that produce copious amounts of data that are not used when spending decisions are made. The gap between producing and using information is especially wide when performance and budgets are at issue. PB becomes discredited when spending units which produce much of the information perceive that their efforts have been in vain. They become careless and treat demands for performance information as just another technical requirement they have to comply with in order to secure funds for the next year.

In budgeting, as in other hierarchical, principal-agent relationships, policies and guidance are supposed to flow downward, while information on services and results is supposed to move up. Political leaders and senior managers have formal authority in many countries to establish performance objectives, but they are dependent on service providers several or more echelons lower to supply essential information. This unbalanced relationship between principals and agents gives rise to the pervasive problem of asymmetric information. Even when they have fairly robust monitoring and reporting systems, central policymakers are dependent on what subordinates, whose perspective and interests differ from theirs, tell them. The problem is especially acute when government aims to base spending decisions on performance. When their budgets are at risk, wily agents may withhold or spin data, lie about results, emphasize data that put their performance in a favorable light and hide adverse information. It is the fate of PB that when performance indicators are ignored in budget work, managers can be truthful about shortfalls or problems, but when they influence budget allocations, line managers have incentive to mislead and deceive.

Agent-principal dissonance and the problem of information asymmetry diminish significantly when the drive for performance is redirected from budgeting to management, that is, from information that might be used against an administrative entity's interests to information whose use is largely controlled by the entity. This is the main reason why performance information has a safe harbor when it serves management, but stirs anxiety in adversarial relationships between budgetary claimants and guardians.

PB almost always increases the cost of generating and processing budget information. Traditional budgets depend on input and output information that is routinely collected in managing government organizations and activities; performance indicators that focus on results, impacts and outcomes require information that lies outside the four walls of government entities. For example, a well-managed hospital routinely compiles timely information on staff levels and payrolls, supplies and equipment consumed, the number of patients admitted and discharged, the occupancy rate, and much more. It takes little effort to organize this information for use in budget decisions. But to assess whether it is performing well and the impact of its activities on health outcomes, a hospital must actively seek to acquire information that is external to its operations, such as the health status of patients after discharge, whether they take prescribed medications, and a social-demographic profile of the community it is serving. To obtain this information, the hospital may have to conduct citizen surveys, make follow visits to former patients, and undertake other expensive efforts.

The cost of acquiring relevant performance data partly explains why many PB systems that aim for outcome measures end up with output data. Spending units often respond to demands for performance indicators by producing copious amounts of information on what they do rather than on what they accomplish. In operating a PB system, generating a surfeit of data sometimes substitutes for having the right kinds of data. Paradoxically, PB has both too much and too little data. In some countries, the PB system is inundated with thousands of indicators, all of which are deemed relevant in assessing program or organizational results. Yet, governments often lack data on the marginal differences in results arising from marginal changes in expenditures. To produce information on the sensitivity of substantive results to marginal changes in expenditures government must first disaggregate outputs or outcomes into discrete units, and then account separately for fixed and variable costs. These steps, which have been mastered by few national governments are necessary to distinguish between average and marginal costs. Without them, governments cannot reliably estimate how substantive results will vary when they decide during budget season to spend a more or less on particular activities.

Summing up, it is this writer's view that stand-alone PIB may do more to enrich the quality of public information than the quality of public services. It should not be assumed that accomplishing the former assures the latter. The road to good performance must be paved with relevant information, but it also needs travelers who know how to get where they want to go, and destinations worth driving to.

The information-centered version of PB has several advantages: it reduces conflict over objectives and priorities, allows politicians and managers broad discretion in allocating resources on the basis of their preferences, and facilitates timely completion of budget work. But these advantages come at significant cost, for they allow budget makers to disregard evidence on results in spending public money.

PB as Allocation. The inadequacies of information-based PB justify the stronger efforts advocated by Robinson and others to formally link resources and results. It bears repeating that this linkage may occur along a continuum, ranging from quantitative dependence of allocations on results in formula-determined allocations to budget structures that format budget decisions to show the reciprocal effects of resources on results. Promoters of results-driven PB must walk a fine line between evidence-based decisions on the one hand and the acknowledged desirability or inevitability of political and managerial judgment on the other.

How can governments walk this line without regressing to information-centered PB while avoiding naive assumptions about politics-free budgets that automatically convert results into allocations? The fact that few governments have a true results-driven PB speaks to the difficulty of implementing this type of budget. Moreover, the revelation in OECD's budget practices survey that national governments have not relied on results-centered evidence to apportion austerity-mandated spending cutbacks hints that it may be easier to link resources and results when the budget is expanding than when it is contracting. Expansive budgets have sufficient space to accommodate both allocations based on evidence and allocations based on politically-expedient responses to voter preferences and group demands. Contractionary budgets are dominated by calculations of what can be cut without provoking legal challenge or political unrest.

It may be unfortunate that PB is sidelined during stressful fiscal times when it has the potential to do most good in enabling governments to preserve effective programs while trimming less effective ones, but this reality of budgetary politics cannot be ignored in efforts to connect resources and results. Accordingly, the ensuing discussion focuses on favorable economic times, when increments are available to finance investments in results. This form of allocative PB can be thought of as *rational incrementalism*, that is, as spurring governments to channel spending increases to programs that promise the greatest returns. As will be described below, this form of PB also can prod governments to reallocate funds *within programs* to improve results.

A key step in operationalizing PB as a budget allocation system is to define and measure performance – whether outputs, outcomes, or impacts – in terms of the actual or projected changes in results produced by public action. It makes little sense to regard performance that would occur in the absence of an allocative decision as a budget-driven result. Performance budgeting should be conceived as a method for allocating incremental resources to achieve incremental changes in results. Change can be defined in reference to achieved or estimated results, or in reference to a target or benchmark set by the government or to an externally-established standard. For example, a performance budget might allocate additional funds to boost graduation rates, reduce class size, improve student reading competence, and introduce computer-based courses.

One may challenge this method on the ground that it exempts the “base” – the ongoing activities that account for almost all public expenditures from PB's purview. In the case of education, most funds are budgeted for regular classroom activities that are continued from one year to the next, typically with price and workload adjustments. At first glance, this appears to be a powerful argument against confining PB to marginal changes in expenditures and results. However, this writer believes that applying PB to the entire budget would doom the effort to failure, both because of the conflict it would spawn and the informational burdens it would place on harried budget makers. PB would become a form of zero-base budgeting.¹⁴

There is little gain in having a PB that allocates money for activities that are continued without material change from year to year. The routine procedures of budgeting do a good enough job accounting for these activities and providing resources for policy-neutral price increases and workload adjustments. As a change focused process, PB can be deployed to allocate decrements to base activities, that is to reduce spending or reallocate funds among activities, usually within the same spending unit but occasionally between units. The same logic and methods that pertain to incremental changes can be applied to decremental ones as well.

To construct a change-oriented PB process, government must have capacity to apportion costs among the results produced by its spending agencies. Ideally, this should be done by means of cost accounting systems that disaggregate results into standard units of outputs (or less easily) outcomes and measures the cost of each unit. The budget would distinguish between costs that vary with the volume of results produced and costs that do not vary. Armed with this capacity, PB would become a system for marginal allocation. Governments would need to deepen their comprehension of how resources are translated into results. This specialized capacity must be program-specific. In the case of education programs, policymakers would have to comprehend the factors that impel students to continue in school or to drop out, the teaching methods that impart reading and other skills, the impact of community, home and peers on the learning environment, and much more. This type of knowledge cannot be honed through budget work alone; it derives from in depth studies of education policies and activities, assessments of how schools are managed, the training and motivation of teachers, and quite a few other relevant factors. The metamorphoses of PB, especially in the form of strategic reviews and public management reform, partly compensate for the inadequacy of relying solely on budgetary institutions to connect resources and results.

A practical method for linking resources and results. All successful efforts to connect performance to budgets share two important characteristics: they orient budget work to policy and expenditure changes, and they allocate resources at the margins.. As previously explained, this means that decisions on incremental changes in expenditures also are decisions on incremental changes in results. Just hoping for this linkage is not enough; governments need data and procedures--the stuff out of which budgets are

¹⁴ The rationale for and failure of zero base budgeting are explained in Aaron Wildavsky, Budgeting: A Comparative Theory of Budgetary Processes, Little Brown and Company, 1975, pp. 278-96

made--to recast budgeting to a process for purchasing marginal changes in results. The challenge for governments is to devise practical means within established budget frameworks for assuring that marginal changes in expenditures are considered in the light of marginal changes in performance. A separate PB process that is not integrated into procedures for compiling the budget will not suffice, for it can be ignored when spending decisions are made.

This subsection sketches a template for forging the resources-results link. The template, which has been adapted by this writer from work done by others, has actually been applied by a small number of (mostly sub national) governments with apparent success.¹⁵ What is suggested here is a template -- not a firm recommendation -- that can be adapted to particular circumstances and can be grafted onto a government's including the pre-existing budget process.

The basic idea is that governments should focus allocative decisions on changes to the results that are projected to occur in the absence of policy initiatives. The starting points for the contemplated arrangement are parallel baseline projections of future expenditures and results if current budget and program policies were continued without change. In recent decades, baseline (or forward) estimates of expenditures have become an essential budget tool in countries that have viable medium-term expenditure frameworks (MTEF). By means of the baseline, government estimates the budgetary impact of proposed or adopted policy changes. However, in contrast to standard baselines which project expenditures, the method described here would add projections of services, outputs or outcomes, thereby enabling government to measure the impact of policy changes on results. The expenditure and results baselines would be disaggregated to emphasize policy-relevant features of the budget, especially incremental changes in spending and performance. The baselines would highlight results for which policy changes have been made or are under consideration.

The second essential step is to explain the baseline projections through trend analyses of government programs and results. The aim should be to provide policymakers and citizens with an understanding of why particular results have been projected to occur if current policies were continued. In education, for example, trend analysis would explain the baseline projection that 30 percent of secondary school students will dropout before graduation. This analysis is essential because government cannot justify changes in expenditures or programs if it lacks understanding of why certain outcomes are projected to ensue from current policies. If policymakers do not know why 30 percent dropout, they also cannot know whether allocating additional resources or modifying education programs would alter the dropout rate. Because trend analyses seek to explain the connection between resources and results, it would be useful to publish summaries in the budget for programs or spending units whose expenditures may be significantly changed by new policies.

The third step is to propose policy changes in the budget and to explain, in reference to the expenditure and results baselines, how they are expected change the amounts spent and the results achieved. Continuing the education example, this type of PB might explain why adding guidance counselors or other interventions are expected to lower the dropout rate from 30 to 22 percent. Drawing from program evaluations and other sources, the analysis would explain why youngsters leave school, why current policies have not been effective, and why proposed changes would "bend the curve."

The three components--baseline estimates, trend analysis, and analysis of budget and policy changes--contain the essential elements of a PB system that links marginal changes in expenditures and results.

¹⁵ The template is adapted from Mark Friedman, [Trying Hard is Not Good Enough](#), Booksurge, 2009. This method and applications can be accessed at www.resultsaccountability.com - Results-Based Accountability™ (RBA) & Outcomes-Based Accountability™ (OBA)

Ideally, trend analysis should be supported by program evaluations, relevant output and outcome indicators, statements of government objectives and priorities, procedures for estimating the budget and program impacts of policy changes, and mechanisms for spending units to shift resources from lower to higher performing activities. For this process to work, it is necessary to focus budget work on policy issues by curbing procedural and informational requirements that distract budget makers from a focus on results.

The template outlined here is sufficiently elastic to accommodate country-specific variations. Running the template would impose some additional informational requirements, arising out of its focus on marginal analysis, but it is built largely on existing budget procedures, especially in countries that have effective medium-term frameworks and experience with baseline projections and sound procedures for estimating the budget cost of policy initiatives. The important thing about the template is that it recasts PB into a strategic process that focuses allocative decisions on expenditure and policy changes to produce public results. This method validates the argument made earlier that PB can be more effective operating at the margins than as a comprehensive process that purports to shape all expenditure decisions.

3. EXTENDING PB TO INCLUDE PROCESSES OUTSIDE THE BUDGET FRAMEWORK

The versions of PB discussed thus far are grounded on the notion that budgeting drives performance, that governments perform when they spend money to buy specified results or to motivate public managers to create public value. These versions take it for granted that performance is degraded when the budget is indifferent to results and bases allocations on the cost of inputs rather than on expected outputs or outcomes. PB advocates are confident that leveraging the budget's control of public spending has the potential to change the behavior of spending agencies and service providers, and to thereby improve efficiency in purchasing outputs and effectiveness in producing outcomes.

The main problem with this expectation is that budgeting is not as potent as PB architects assume it to be. More often than not, each year's budget is largely shaped by decisions taken elsewhere, especially in previous budgets and in standing legislation. Viewed in this light, budgeting is a weak process that is handcuffed by incremental biases, laws entitling recipients to mandated payments, pressure to allocate sufficient funds to finance the running costs of government, and in some countries by activist courts that compel government to finance certain activities in the budget. In practice, budget officials typically exercise strong control over the incremental resources produced by economic growth or by marginal reallocations, which is why the PB variant described at the end of the previous section has the potential to work.

A self-contained PB faces an additional problem. As an insular process, budgeting does not itself generate sufficient data and analyses to base allocations on actual or expected performance. It is, as practitioners well know, a deadline-congested process that runs on routines that are repeated year after year, usually with little or no change. To function as a performance-enhancing process, budgeting must be open to externally-generated targets, indicators, evaluations, and other information.

Because the budget is impacted by decisions made elsewhere, it can also be shaped by performance information produced through other processes. Budgeting does not have to be in the driver's seat for government to drive for results; it can be an effective instrument for translating policies and measures developed elsewhere into expenditure decisions. Once it is recognized that the fundamental aim of PB is to improve government performance and that budgeting is just a means to this end, it is a short step to recast PB into a process that is open to a variety of initiatives outside the constrained framework of budgeting.

This redefinition is suggested in an important paper by Mario Marcel which explores the deployment of PB to expand government's fiscal space.¹⁶ Marcel was led to an expansive view of PB by "the inability of indicators, monitoring, program evaluations, and presentational schemes to contribute to fiscal consolidation measures..." Drawing on OECD's recent survey of budget practices which found "that performance budgeting tools were of little use for budget adjustments when the crisis hit in 2008," Marcel suggests a two-prong strategy to facilitate fiscal consolidation: "incrementalist" initiatives that do not uproot established budget practices, such as program evaluations, spending reviews, efficiency dividends, and deindexation; and "nonconventional" approaches that include changes in permanent legislation, curtailment of tax expenditures, greater recourse to PPPs, and zero-base budgeting. From one perspective, the only common feature of this hodge-podge of reforms is that they may generate savings to stabilize the government's fiscal position. From another, however, each has potential to improve government performance. The various reforms, Marcel urges, "should not be seen as an alternative to a focus on results

¹⁶ Mario Marcel, "Budgeting for Fiscal Space and Government Performance Beyond the Great Recession," OECD Paper, GOV/PGC/SBO(2013)1, February 2013, p. 18.

and performance but companion to it.” Creating fiscal space should not be an objective in itself but a way of safeguarding and mobilizing scarce public resources to priority objectives.”¹⁷

Marcel's menu of initiatives that seek to expand fiscal space by promoting performance may be regarded either as subordinating PB -- treating it as only one of a number of tools available to government--or elevating it to be the organizing basis for otherwise disparate innovations. A strong case can be made that PB has no special claim of pre-eminence; it is only one technique among many. Governments can extract efficiency dividends or evaluate programs even if they do not have performance budgeting systems. Nevertheless, there is sound reason for labeling PB as a broad process that encompasses other efforts to improve performance. Doing so recognizes that these initiatives may be effective only to the extent that they influence budget decisions. Viewed in this light, PB is not a distinct process but a conduit that translates data and analyses generated outside the budget process into program decisions and resource allocations. Feeding externally-produced assessments into the stream of budget work requires that PB be an open process that actively searches for performance-relevant information and analyses. This can be a difficult task because budgeting's routines and deadlines tend to induce policymakers to adopt an insular perspective that screens out views and insights which challenge incremental spending patterns.

This problem can be summed up as follows: innovations that are formally attached to established budget procedures risk becoming technical exercises that reinforce incrementalist tendencies; innovations that are distanced from the budget risk being ignored when spending decisions are made. This is not a new problem: it has repeatedly vexed countries that formalize program evaluation rules and procedures. Although there have been a few notable successes, the usual fate of large-scale investment in program evaluation has been marginal adjustment in expenditures, not wholesale reallocation.¹⁸ The successes provide useful clues, though they do not assure the same results when procedures are transplanted elsewhere. Since the early 1980s, the Netherlands has selected a number of programs for in-depth "reconsideration" each year.¹⁹ The effectiveness of this arrangement may be due to high-level political support--the selections are made by Cabinet--and the country's relatively stable multiparty coalition government. In some years, Chile has opportunistically emphasized "quick" evaluations that are fitted into the budget calendar and influence annual expenditure decisions. It has been willing to trade away deep studies in order to garner insights that are applied in the current round of budget work. Australia had significant success beginning in the late 1980s when the Government launched an ambitious "evaluation strategy" that required ministries to schedule assessments of their programs and to formally publish results. The strategy included an annual report on the extent to which evaluative findings were fed into budget decisions.²⁰ The accomplishments of these countries demonstrate that program evaluation can be effective when political support is forthcoming and procedures are in place to funnel results to budget decisions. Arguably, PB is the optimal form of budgeting for actually applying program evaluations in budget work, for it sensitizes spending decisions to evidence on results.

The main aim of conventional evaluations is to improve the effectiveness of programs or the efficiency of expenditure. If there is reallocation, it is mostly within programs, and if there are savings, they typically are plowed back into the same programs or agencies from which they were harvested. Program evaluation thus

¹⁷ *Ibid.*, p. 32

¹⁸ "A key challenge is ... to ensure that evaluation is practical, useful and cost-effective." Robinson, *ibid.*, p. 40;

¹⁹ The Netherlands' experience was discussed at the 5th Meeting of Senior Budget Officials in 1984. See "Policy Review and Budgeting: Some Experiences with the 'Reconsideration Procedure' in the Netherlands", Organization of Economic Cooperation and Development, CT/PUMA/535, Distribute 15 June 1984;

²⁰ See John Wanna, Joanne Kelly and John Forster, Managing Public Expenditure in Australia, Allen & Unwin, 2000, pp. 219-19

comfortably coexists with incremental spending behavior. However, standard evaluations may not suffice for countries that cannot ,or do not want to, continue along an incremental path. They may need bolder techniques that promote fiscal consolidation and stabilize public finance.

Spending Reviews. In the wake of a still-festering fiscal crisis, many OECD countries have turned to strategic spending reviews that seek to address fundamental questions about a program's or agency's purposes or effectiveness. Spending reviews were not included in early OECD surveys of country budget practices, but the 2011-12 survey reports that more than half of Member countries now claim to have used this practice. Curristine's 2007 study of *Performance Budgeting in OECD Countries* identifies half a dozen countries that have incorporated some type of spending review in their budget processes, and she also briefly discusses this technique in an essay published in Robinson's book.²¹ Significantly, Robinson's glossary of terms associated with PB has more than 70 entries, but spending reviews are not among them. Although they have antecedents that go back decades, contemporary spending reviews are byproducts of the crisis and of the perceived need to loosen incrementalism's grip on public expenditures. They aim for significant spending reductions or reallocations, not for the marginal adjustments achievable through ordinary budgetary work.

Recent interest in spending reviews suggests that older processes do not suffice to blunt the adverse impact of incremental budgeting on the government's fiscal position. Program evaluation, performance targets and indicators, medium-term frameworks, and other popular techniques tend to be undermined by the routines and biases of budgeting. They often become parts of the ongoing routines of budgeting, procedures that have to be completed in order to get through that year's budget work. The programs targeted, evaluated or measured continue along their destined incremental paths.

Crisis-driven spending reviews strive to inject performance criteria into cutback decisions that usually are made opportunistically rather than strategically. When faced with pressure to immediately curtail expenditures, governments habitually resort to tactics that reduce political costs while saving money. Across-the-board cuts, freezes on pay or on hiring, and deferral of maintenance expenditures have nothing to do with performance but are expedient ways of saving money without making politically difficult choices. Spending reviews open the door to the political risk of cutting popular programs that fail to produce value for money. How wide the door is open depends on the commitment of political leaders to make the case for performance-based cutbacks when fiscal conditions demand consolidation and for reallocating money when there is a yearning for program enhancements.

Genuine spending reviews differ from ordinary program assessments, Curristine argues, "in that they are centrally driven exercises and they concentrate on issues of allocative efficiency across government and examine the consequences of alternative funding levels."²² This writer prefers the word "politically" rather than "centrally" driven. That is, they engage ministers, either collectively in cabinet or individually through their assigned portfolios, in defining the questions to be addressed and deciding the policy and budget consequences of the evidence produced by the reviews. If political commitment is lacking, a review is prone to become yet another technical exercise that yields interesting findings but few hard choices. Every country that has successfully conducted reviews *and* then made significant policy changes has done so because the process has been led and supported at top political levels.

To be useful, a spending review should ask basic questions concerning purposes, priorities and effectiveness, and it should be organized to facilitate policy responses to the evidence adduced in

²¹ Teresa Curristine, "Experience of OECD Countries with Performance Budgeting," In Robinson, pp. 135-38

²² *Ibid.*, p. 135

conducting the review. While the scheduling of reviews may be *ad hoc*, the questions raised should be uniform, and pertain to a broad swath of programs and agencies. If they aren't, reviews risk becoming self-serving exercises that weaken the government's capacity to rein in public expenditures. Policy reviews conducted in the Netherlands are based on uniform questions that include: What is the problem to be solved? What is the cause of the problem? Why is the solution a responsibility of government? Which alternative solutions are possible, and which policy instruments can be used?²³ Every country that undertakes reviews has its own questions, but they all go to the issue of whether government should spend public money on the program.

Spending reviews confront a problem that is the opposite that that which besets innovations that are closely tethered to the budget cycle. Conventional innovations risk being captured by the perspectives and routines of budgeting; spending reviews risk being ignored when time and politically pressured expenditure decisions are made. Some countries have sought to surmount this problem by building spending reviews into the budget process. For example, in the United Kingdom, during Labour Government rule (1997-2010) biennial spending review led to public service agreements that specified departmental targets and resources.²⁴ In the United States, the Bush Administration (2001-2009) introduced a program assessment rating tool (PART) in tandem with annual budget reviews.²⁵ Because of critical differences in governing arrangements, the British were more successful than the Americans in translating reviews into performance targets and expenditure policies. Both countries, however, share one characteristic that calls the long-term efficacy of systematic – in contrast to *ad hoc* – reviews into question. In both countries, formal reviews were discontinued with a change in government. Not surprisingly, a process that is utterly dependent on political support is discarded or revised when political winds change. It may be that distinctive features of its political system, in particular, stable regimes and highly-developed coalition agreements, have spared the Netherlands this fate.

Are spending reviews merely crisis-borne adjustments that will fade away when crisis abates, and do they have much impact on budget policy while they are in vogue? Writing before the crisis ravaged public finance in many OECD countries Curristine concluded that even with spending reviews, “much of the annual budget process remains incremental... reallocation is not necessarily the result of systematic spending reviews.”²⁶ My assessment is somewhat more positive, both because of the extraordinary effectiveness of spending reviews in some countries, such as Canada in the 1990s²⁷, and the impulse to curb budget deficits in fiscally-distressed countries. Political support rarely is sustainable for an extended period, but when it is present spending reviews can enable governments to make performance driven budget decisions.

This section began with the argument that budgeting needs external reinforcement to stay on a performance footing. Spending reviews currently serve this purpose. It is highly probable that if reviews are not viable for the long haul, governments will devise other methods to facilitate performance-based spending decisions.

²³ Adapted from OECD, *Performance Budgeting in OECD Countries*, p. 170

²⁴ Peter C. Smith reviews this process in “Performance Budgeting in England: Public Service Agreements,” in Robinson, pp. 211-233

²⁵ See U.S. Government Accountability Office, *Performance Budgeting: PART Focuses Attention on Program Performance But More Can be Done to Engage Congress*, GAO-06-28, October 28, 2005

²⁶ Curristine in Robinson, op. cit, p. 138

²⁷ Canada’s program reviews are assessed in David Good, *The Politics of Public Money*, University of Toronto Press, 2007, pp. 266-72

4. PB AS AN INSTRUMENT OF PUBLIC MANAGEMENT

This writer once described budgeting as “government talking to itself”, a characterization that reflects the bounded structure of bids by spending units, review by central agencies, and dictated or negotiated decisions.²⁸ The previous section argued that PB's dependence on externally-generated performance data and analyses inevitably opens it to extra-budgetary processes. This section discusses a more potent rationale for broadening PB's ambit: its dependence on government entities to implement performance objectives and targets. Performance budgeting is a hollow exercise if the agencies that spend public money and operate public programs are not themselves capacitated and motivated to produce the results for which resources have been authorized.

Early PB systems foundered on the misguided notion that because the budget controls financial resources, it shapes the conditions under which government agencies are managed. In fact, however, organizations tend to be more beholden to their culture and traditions than to budget allocations, more influenced by the interests of their personnel and clients than by the format of the budget. If agencies manage operations by controlling inputs, the fact that the budget bases allocations on outputs will have little influence on the behavior of managers or on the results they achieve.

To be effective, PB has to spread its wings and encompass performance management; it has to transform both the way budgets are made and implemented, and the behavior and operation of government agencies. According to this line of reasoning, which has been most strongly advocated by the new public management (NPM) movement, budgeting is not a distinct process but a vital part of a family of managerial practices and an essential component of results-oriented reforms.²⁹ Administrative organizations cannot manage for results unless they also budget for result transformation must proceed concurrently on both fronts. PB shifts budget allocations from inputs to outputs (or other performance indicators), NPM decontrols inputs and permits managers to purchase the inputs they regard as appropriate for producing intended results. Managing for results unleashes PB's potential, budgeting for results enables performance management. In this scheme, PB and NPM (as well as other results-focused management reforms) are interdependent innovations.

This “Copernican revolution” --PB is no longer is deemed to be sufficient to manage for results, but is one of the processes within its orbit -- boosts both the stakes and difficulty of implementing performance-based budgeting. On the one hand, its enlarged frame invests PB with a critical role in transforming public management; on the other hand, this transformation is exceedingly difficult to achieve. It is one thing to change the informational content and structure of budgets, an order of magnitude more difficult to change an organization's embedded culture and the behavior of its managers and service providers.

One thing is certain: PB itself cannot transform organizations; it may be a necessary reform, but not a sufficient one. Countries that have had significant PB successes have coupled management and budget reform. New Zealand first legislated fundamental changes in public management, then adopted new budget

²⁸ Allen Schick, “Twenty-Five Years of Budgeting Reform”, in Evolutions in Budgetary Practice, p. 344;

²⁹ Alta Folsher succinctly applies the tenets and methods of new public management to budgeting in “Budget Methods and Practices,” in Anwar Shad (ed.) Budgeting and Budgetary Institutions, The World Bank, 2007, pp. 27.

tools.³⁰ The two sets of reforms moved in tandem in Australia, the Netherlands, Sweden, Denmark and other successful PB innovators.³¹

How does a country transform public management from a bureaucratized control and compliance regime into a continuing quest to create public value?³² Two broad strategies have been applied. In simple terms, one is to “let managers manage”, the other is to “make managers manage.” The former is grounded on the assumption that public managers want to produce results, but are handcuffed by controls and procedures that limit their freedom of action, and deny them the ability to apply their professional skills and public service values to the daily tasks they face. The latter starts with the expectation that administrative discretion does not suffice and that managers must be compelled by market-type arrangements to strive for results. PB is a core element of the “let managers manage” approach because the shift from inputs to outputs expands managerial discretion, and the *ex ante* specification of program objectives and performance targets gives managers clear signals on expected results. Pointing managers in the right direction also is encouraged by efficiency dividends, program evaluation, and performance reports and audits.

In PB's early iterations, managerial competence and commitment were generally regarded as sufficient conditions to uplift organizational performance. Nowadays, however, greater emphasis often is placed on the critical role of leaders who not only manage the organization's resources, but actively strive to remake its culture and to motivate rank and file personnel to continuously improve performance. Leadership is a rare quality that is shaped more by personal characteristics than by budgetary formats, more by experience than by rules.³³ Shortfalls in leadership translate to shortfalls in performance.

An organization's culture -- the embedded, usually unarticulated, values and informal rules that are passed down from one generation of workers to the next -- often is a formidable barrier to performance budgeting and management.³⁴ Culture is obdurate; it can withstand waves of reform, enriched information, formal changes in organization structure, and turnover in management. Organizational culture and performance can change, but letting managers manage by removing deadweight controls and turning the spotlight on to performance may not be enough.

An alternative pathway to performance would make managers manage by introducing market-type arrangements, such as user charges, consumer choice, competition, outsourcing, and performance contracts into the public sector. The budget itself becomes a performance contract that specifies the resources and results that will be forthcoming. Ideally, budget holders are legally and organizationally separated from service providers, and have the option of purchasing outputs from government providers or other sources. Citizens become customers and can choose their own service providers.³⁵

³⁰ New Zealand reformed public management in the 1988 State Sector Act, and budgeting in the 1989 Public Finance Act

³¹ See Allen Schick, Modern Budgeting, Organization for Economic Cooperation and Development, 1997

³² The term is taken from Mark H. Moore, Creating Public Value: Strategic Management in Government, Harvard University Press, 1995

³³ One of the best studies of leadership is Ronald Heifetz, Leadership Without Easy Answers, Harvard University Press, 1994

³⁴ Although most studies of organizational culture discuss commercial entities, some are relevant to government. See Edgar Shein, Organizational Culture and Leadership, Jossey Bass, 2010

³⁵ This development is reviewed in Jonathan Boston (ed.), The State Under Contract, Bridget Williams Books, 1995

The market model has been amply applauded and loathed, but rarely applied. It is a bridge too far for the many countries strongly wedded to the idea that public services should be publically provided, and it encounters strong opposition from public workers whose status and financial wellbeing would be put at risk. The New Zealand model, which may be the boldest and most comprehensive effort to remake the national budget into a market-type instrument, has been adopted by few countries. Most countries that venture down this road settle for limited applications or pilot tests that maintain the public character of public management

Efforts to organize public services along market lines faces a deeper problem. When they are applied in government, market type mechanisms do not work the way they do in real markets. Performance contracts are not arms lengths agreements, the parties do not usually have effective recourse when terms are breached, and government may be obliged to continue funding services when performance falls short of agreed levels. Marketization may have a firmer foothold when choice is transferred from government agencies, as occurs in purchases-provider arrangements, to recipients of public services, such as parents or patients. But few national governments have tried this approach across a broad swath of public services, and when they do, recipients may be ill suited judges of performance.

The limitations of managerial and market innovations should not lead to the conclusion that public management is stuck in a rut and incapable of improving results. Across the OECD community, governments perform reasonably well, continually upgrading operations and shifting priorities to take on new responsibilities. Government agencies have taken on new tasks and (to a lesser extent) discarded old ones, and they have retooled work processes by modernizing IT systems, retraining staff and gathering new types of information. Over the years, this writer has observed two distinct patterns for establishing new objectives and priorities and upgrading work processes. One makes use of incremental resources to expand an agency's or programs' footprint, the other reallocates funds within the existing resource framework. The first unfolds within the budget's framework and can benefit from PB's drive for performance; the second occurs within internal agency budget processes, but usually outside the purview of central budget work. The first is transparent, garners much public attention, and is regarded as a signpost of whether government is budgeting for results. The second may receive little attention, though it contributes to ongoing improvements in performance. PB has a limited role in this approach because agencies do not seek central government resources or approval. Neither approach challenges the spending agency's control of its resources and activities. The first narrows central attention to expenditure increments, thereby protecting expenditures and activities approved in previous budgets; the second enables agencies to adjust expenditures and activities on their own initiative.

The financial crisis and austere budgets have disrupted these comfortable patterns, which calmed budget tensions and enabled governments to improve performance. The first approach has been undermined by weak growth and meager increments, the second by pressure for explicit, large-scale reallocations managed by central agencies. PB's expanded scope, especially its linkage to spending reviews, reflects determination to generate savings while improving performance.

Government agencies can manage for results even if they do not have a full-blown PB system. It is important that they not be hobbled by line item controls, and it is beneficial that they be informed about outputs and outcomes, but it is even more important that they have a public-regarding ethic that inspires them to perform.

5. PB AS AN INSTRUMENT FOR STEERING SOCIOECONOMIC POLICY

The two main indicators of performance--outputs and outcomes-- take PB down different paths. Outputs are measures of public services and activities; they fit well into the routines of budgeting and management. Outcomes pertain to results outside the boundaries of government, in particular socioeconomic conditions that are major responsibilities of government, such as the health and educational status of citizens. As discussed earlier in this paper, the impacts of government policies and expenditures on these conditions often cannot be casually linked to budget allocations. The difficulty of hitching outcomes directly to the budget explains why PB systems that begin with a focus on outcomes often end up measuring outputs.

Socioeconomic conditions are the natural habitat of planners who look beyond current policies to examine trends and needs, not of budget people whose vision is filtered through financial statements and agency bids for resources. Few OECD countries have national planning systems, but they do have a need to scour the socioeconomic landscape to assess the impacts of existing policies and trends that may justify new ones. This task usually falls to sectoral policy makers and program planners, but in recent decades, their work has been supplemented or superseded in many Member countries by central policy staffs that have a broader perspective and have the ear of government leaders.

The rising prominence of central policy staffs has the potential either to diminish the influence of the central budget office or to enhance budgeting's role as a policy planning process. Which possibility materializes depends on whether budgeting is itself transformed into a policy process or continues to function principally as an instrument of expenditure control. PB and other contemporary innovations (such as medium-term frameworks) aim to strengthen budgeting's policy capacity, but doing so may seed friction among rival central government policy organs.

Conflict is a likely outgrowth of multiple entities competing for policy influence, but so, too, is cooperation. Policy planners and analysts need the data and insights of budget experts to frame viable proposals; budget officials need the broader socioeconomic canvas of policy planners to produce budgets that address the interests of political leaders. PB can bridge the gulf between policy and budgets by establishing formal mechanisms for monitoring socioeconomic conditions, establishing targets and expectations for assessing trends in these conditions, intervening with policy initiatives to retarget or refocus government programs, and funneling resource to programs in accord with the targets. It is especially useful when politically-salient socioeconomic objectives cut across government programs and agencies, and cannot be achieved through the actions or budget of a single ministry. Crosscutting objectives often are among the most urgent for political leaders and the most difficult to achieve.

The biennial spending reviews and public service agreements carried out in the United Kingdom by the Labour Government during the first decade of the new millennium comprise one version of a PB-influenced policy monitoring and steering process. This initiative was led by the Treasury, was strongly shaped by budgetary and performance considerations, and enabled the Government to set and monitor high-level social and economic objectives. The country had an effective PB-centered policy monitoring and steering process that extended outside the conventional boundaries of budgeting to focus on vital socioeconomic trends.

A different steering and monitoring arrangement has been implemented by the elected heads of some American state and municipal governments, such as the State of Maryland and Baltimore City.

These and some other governments use advanced IT systems to electronically display and track key socioeconomic indicators on large, color coded screens. Government leaders organize periodic meetings

with aides and department managers to review trends, assess progress in achieving targets and milestones, identify problems, and make policy or administrative adjustments. One big virtue of this approach is that it communicates information to politicians in ways that encourage them to actively discuss policy objectives and to oversee the performance of government agencies.

The foregoing examples differ in the linkage of PB and monitoring. The United Kingdom's approach was budget centered, the American subnational government approach is planning centered. Spending reviews were the starting point for the U.K.'s public service agreements that bundled together decisions on resources and expected results. Their linkage to the budget signaled that the PSAs are not mere projections, but commitments that have financial consequences for spending units. The U.S. version has a weaker connection to the budget, but realizing its policy objectives almost always requires an infusion of financial resources.

To be effective, monitoring requires several supporting conditions, in addition to budgetary repercussions. One obvious precondition is set key targets set in advance, that enable policymakers to benchmark results against expectations. Targets promote sound policy monitoring when they are selective, pertain to issues that engage the interests of political leaders or senior officials, and are framed in a form that facilitates tracking of progress. Targets that try to cover all facets of performance lose potency, if only because they are unlikely to give strong directional signals to monitors. But selectivity increases the importance of getting the right targets that capture a program's purpose or an issue's urgency and are salient to top policymakers. Ideally, monitoring is followed by steering by policy adjustments or managerial interventions to correct problems or identified shortfalls in results. Without follow-up, monitoring just adds to the ample stock of performance information, but does not generate improved results.

PB-relevant monitoring focuses not only on the results side of the ledger, but on expenditures as well. One of the objectives of monitoring is to determine whether funds have been spent as authorized by the budget; another is to assemble data on whether expenditures have accomplished the intended results. The PETS project devised by international financial institutions exemplifies the potential of monitoring systems to trace public expenditures from the budget through end use. It also demonstrates that monitoring the actual delivery of services and expenditure of funds can be as difficult, difficult, costly and useful as monitoring policy outcomes.

Monitoring is often coupled together with evaluation, and is generally regarded as of considerably less value or as a means of producing data to be used in assessing program effectiveness. In fact, monitoring and evaluation are distinct processes that employ different methodologies and produce different data sets. Obviously, the more that monitors focus on policy, the more fluidly their findings can be fed into program evaluations. But the closer monitoring gets to the delivery of services, the more it is pulled away from standard evaluations. A sound case can be made for both practices, and coordinating them when monitoring produces data and insights that strengthen evaluative processes.

6. PB AS AN INSTRUMENT OF DEMOCRATIC ACCOUNTABILITY

PB and other performance-oriented initiatives go to the heart of a difficult problem in democratic societies. During recent decades, OECD governments have become more open and transparent, but trust and confidence in political leaders and institutions have declined. National governments have applied accounting standards to their financial reports and operations, and many have armed auditors with more resources and more independence. Freedom of information rules has been liberalized, and most OECD countries now routinely publish useful financial and performance information on the intern and other outlets. Some argue that citizens have lower regard for government because its performance has declined; others argue that greater transparency has abraded election campaigns and the news media.³⁶

Whatever the merits of these clashing views, PB is relevant to the march to greater transparency and citizen empowerment on the one hand, and to adverse trust in government trends on the other. Citizens have more access and more effective recourse than in the past, but many feel government dissembles or withholds important information on how public funds are used and the services provided. A robust PB system yields more relevant information for citizens, but also may inflame political debate and fuel political discontent. A government that candidly reports on its performance is likely to face more opprobrium for shortfalls in results than applause for its favorable accomplishments. There is little basis for expecting improved performance to itself elevate trust and confidence levels. Other considerations weigh more heavily in citizen disinvestment in government and other collective institutions.

The argument for informing citizens on government performance has to stand on its own, principally in terms of the value of government accountability in democratic societies.³⁷ There are solid grounds for expecting performance to improve when government agencies and personnel are accountable for how they perform. Whether through elections and other political mechanisms or through administrative processes, there is feedback from information on results to the formation of public policy, the management of agencies and delivery of services. Effective feedback depends on several supporting conditions, in particular, attentive media and groups and a professional, public service. Without favorable conditions, more information will not produce more accountable governments or better results.

Performance monitoring is a means of making governments more transparent and accountable for the money they spend and the results they deliver. On the expenditure side monitoring abets determination of whether funds have been spent on intended purposes, for example, whether money allocated for textbooks has actually been received by eligible schools. In terms of performance, vigilant monitoring sheds light on the quality and volume of services and whether policies have produced targeted results.

Monitoring addresses issues and produces information that are beyond the scope of conventional audits which depend on data provided by entities responsible for expenditures and services. External auditing and performance monitoring share three characteristics that pertain to democratic accountability. First those responsible for gathering or analyzing information are institutionally separated from those responsible for expenditures and services. Second, both processes are retrospective; they review what was actually spent or accomplished. But the two processes diverge on responsibility for compiling information and for preparing statements on performance. The standard role of external auditors is to attest to the accuracy and completeness of information prepared by agency managers. They review data produced by the entity

³⁶ See Robert Putnam and Susan Pharr, Disaffected Democracies: What's Troubling the Trilateral Countries, Princeton University Press, 2000;

³⁷ See Robert Behn, Rethinking Democratic Accountability, The Brookings Institution, 2001

undergoing audit. Monitors generate their own information; they do not rely on performance claims made by service providers. Third, audit findings are not routinely fed into the policy stream, but information produced by monitors often is. Many countries either require affected agencies to respond to audits or give them the option to do so, but few have procedures for assuring that findings will be taken into account when budgets or other policies are decided. Moreover, the audit profession does not yet have generally-accepted standards and procedures for reviewing performance statements issued by government agencies. Few countries conduct regular performance audits, which require different skills and work methods than those associated with financial audits.

These differences suggest that conventional auditing has serious gaps in its accountability framework that may be partly closed by active monitoring. Instead of being dependent on program managers and service providers for essential performance data, monitors have their own methods for determining what programs actually are accomplishing and the services actually delivered. They are not bound by the conventions of auditing, or limited by the use to which they can put information and analyses.

Whether it merely provides information on expected outputs or outcomes, or goes further and aligns resources and results, PB makes government more accountable for what it does and spends. But as discussed in the previous section, PB is not a precondition for effective monitoring. Having preset targets against which performance is measured systematizes the process and enables monitors to assess whether government has performed according to expectations.

7. PB AS A SPUR TO CITIZEN ENGAGEMENT

The various forms and offshoots of PB discussed thus far all pertain to information produced and decisions taken within government. They differ principally on the end use of performance information. Core PB is used to allocate financial resources, extended PB reaches to administrative management and policy steering, and PB offshoots promote transparency and accountability. This section reflects on an offshoot that transfers information and participation in budget decisions to civil society.

This offshoot is generally referred to as participatory budgeting (PARB), a label that indicates formal involvement of citizens and groups in discussions and decisions with respect to public expenditures and services. This process has been introduced in various local governments, mostly in developing countries, but because genuine participation inherently occurs only small groups, it is hard to apply PARB at the national level.³⁸ Although scholars credit the city of Porto Alegre, Brazil with inaugurating PARB in 1989, some precursors date back centuries to town and village governance in the United States and other countries.

PARB is structured participation, and usually follows a number of formal steps. First, the government decides which amounts or portions of the budget should be open to participatory allocations. Obviously, fixed costs for pensions, debt service and various mandatory transfers are off limits, but expenditures for public services and public works (which are a much larger share of local than of national budgets) may be subject to PARB. Second, residents participate in local assemblies or select delegates to represent them. Typically, fewer than 10 percent of eligible persons participate in the process, making PARB vulnerable to capture by organized groups or activists. In some communities, such as Lima, Peru which is divided into more than 40 municipalities, each with its own PARB, residents of affluent areas tend to have higher participation rates, though proponents of this process believe that greater benefits accrue to lower-income communities whose interests may be neglected when spending decisions are made in closed budget processes. Third, delegates establish priorities and recommend allocations for particular services and activities, usually with the active assistance of local budget experts. As will be discussed shortly, this is the point at which PB connects with PARB. Finally, the governing authority votes the budget, usually adhering to the priorities and guidance provided through PARB.

Vesting residents with a substantive voice in budget allocations risks turning the process into a beauty contest or one which gives primacy to those who are most assertive. In expanding direct democracy to budget and policy decisions, care has to be taken that PARB encourage informed decisions, and that participants have access to relevant data on the cost, aims, and accomplishments of public services. A community that has a robust performance budget apparatus will likely lead to different participatory decisions than one that is blind to results. Furthermore, the more than participants base their preference on performance criteria, the stronger the incentive to compile information on the outputs or impacts of public services.

Although PARB is still largely a boutique process, some claim that it has produced material improvements in the communities that have implemented it. Others wonder whether it does more to make residents feel good than to uplift their wellbeing. This is an argument that will not be resolved until PARB has much

³⁸ Participatory budgeting is framed in terms of the larger question of social accountability in a joint OECD and World Bank project that consisted of 40 case studies in Member countries. See Joanne Caddy, Tiago Peixoto and Mary McNeil, Beyond Public Scrutiny: Stocktaking of Social Accountability in OECD Countries, The World Bank and OECD, 2007.

more widespread application in a variety of venues and under different economic and political conditions. For purposes of this paper, however, a well-run PARB exercise may make PB more relevant and immediately spur governments to give more attention to results.

8. IS PB UNDERUTILIZED AND OVER EXTENDED?

PB originated as a movement to transform budgeting from a means of purchasing inputs to a process that allocates money according to actual or estimated results by changing the structure and content of budget accounts. Over time, this paper has argued, PB has been extended to program assessment and management beyond the immediate purview of budgeting, and has spurred offshoots, such as performance accountability and participatory budgeting. PB's "mission sprawl" poses an anomaly: how is it that PB has had middling success in its generic purpose, but has strongly influenced peripheral activities? The question that heads this concluding section stirs reflection on the connection between the disappointing fate of core PB and its impact on other processes. In the paragraphs that follow, we offer three conflicting answers: PB has been remade budgeting, PB has been impeded by rigid budgets, and PB has awakened governments to new opportunities to perform.

PB has transformed budgeting. One line of reasoning concludes that the question's underlying premise is wrong, and that PB-type mechanisms have migrated to other processes because the drive for performance has reshaped budgeting, perhaps not in formally tethering resources to results, but in the mindset of budget makers, the information they draw on, and their spending decisions. They pay much less attention to the line items and much more to evidence and expectations on performance than was the case decades ago. Essentially, this is the case for the PB-as in the information argument discussed in section 2 of the paper.

It is not necessary to repeat the case made earlier in the paper against undue reliance on performance information to change budget behavior and decisions. It should be mentioned, however, that isolated success stories showing that performance information has swayed a particular budget decisions or improved particular programs is not sufficient evidence of PB's impact.

PB has been hobbled by rigid budgets. An alternative explanation, however, is that the drive for performance has been exported to other policy and management arenas because it reached in dead end in budgeting. According to this view, the rationale for basing financial decisions and other policies on performance is so compelling that proponents have sought other outlets despite their inability to remake budgeting into a results-driven process. Expanding PB to other processes compensates for failure to uproot established budget practices, but keeps the idea of performance budgeting vibrant and enables practitioners to claim success.

To make this case, one must explain why PB has had difficulty in its core budget function, but easier going elsewhere. What has PB failed to change in budgeting, but does not have to challenge in its other iterations? The usual answer is that a results orientation requires a shift away from inputs. But, if this were so, PB would have transformed budget practices in most OECD countries decades ago. The real obstacles to performance-based allocations are rigid budgets, political pressures, and the persistence of incremental norms and behavior. Together, they block efforts to hard wire resources to results, and dilute PB into a expenditure- reclassification and data-compilation exercise that turns out to be highly useful for its extensions and offshoots.

These obstacles are well-known and need only a little elaboration.

- (1) Rigid expenditures that are locked into national budgets by law, contract, or the weight of past decisions are not allocated on the basis of performance criteria.. Even when it nominally covers these expenditures, PB does not effectively govern them. Sticky expenditures account for at least three-quarters of total public spending across the OECD community, and significantly narrow the fiscal space open to results-based allocations. It is possible to derigidify expenditures through nonconventional methods or crisis-impelled policies, but, as Marfio

Marcel has noted, not through PB.

- (2) As is commonly recognized in both theoretical and empirical writings on PB, coveting performance does not banish political influences, nor should it. Results are only one of the data sets considered by politicians decide budgets, and often far from the most influential. It is easy to agree that this is as it should be in democratic societies, but hard to know what space, if any remains for results-driven choices. Merely indicating that performance is one of the factors considered by budget makers does not justify PB's lofty ambitions.
- (3) The net effect of rigid budgets and political influence is that budget makers allocate the incremental resources available after past decisions and political considerations have staked their claims. How this slice of expenditures is allocated determines whether PB is worth the effort. At the end of section 2, this paper outlined one method for a "performance-based incremental budget system.". Over versions may be feasible, but only if they recognize that targeting PB to budget increments has the potential to strengthen this reform.

Performance is the shared focus of PB, extenders, and offshoots. A final answer to the question that forms this section is that the status of PB is of less consequence than the idea of performance. PB is one outlet for a drive to spur improve public management and the wellbeing of citizens. This movement has advanced on multiple front, including less trusting but more inquisitive media, the emergence of policy elites trained in data collection and analysis, refinement of performance measures and publication of league tables, rising expectations for public services coupled with declining trust in government, and weaker economic growth. This is not a complete list, but it does indicate that developments outside the orbit of budgeting have carried the message of performance across a broad swath of government activities and processes. Some of the extenders and offshoots discussed in this paper may have non-budgetary roots.

If this is so, the final question is one whose answer can come only with the passage of time, Can governments perform if budgets do not?