One Step Forward — Two Steps Back?
Do Governments Spend Our Money Better?

A
Professorial Lecture
by
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I'd like to start with a quote from one of history's more well-known and flamboyant government officials who had a long involvement with treasury matters — the English C17th diarist Samuel Pepys. Some of you will remember that Pepys was a senior budgetary official under the British Naval Board — then one of the largest elements of the English state. A few entries from his copious diaries ... 

'As soon as eat a bit. Mr Wayth and I by water to Whitehall, and there at Sir George Carteret's lodgings Sir William Coventry met, and we did debate the whole business of our account to the Parliament — where it appears to us ... that we owe above £900,000, but our method of accounting, though it cannot I believe be far wide from the mark, yet will not abide a strict examination if the Parliament should be troublesome' ... entry for 23rd September 1666.

A few days later ... '...our business was tendered to the House today and a Committee of the whole House chosen to examine our accounts, and a great many hotspurs enquiring into it — and likely to give us much trouble and blame, and perhaps (which I am afeared of) will find faults enow to demand better officers. This I truly fear' 26th September 1666.

The next day, however, 'Sir William Coventry seems to think they will soon be weary of the business and fall quietly into the giving the King what is fit. This he hopes' 27th September 1666.

Later in a scandal over the distribution of 'prize goods' (war booty) where payments had been paid to the wrong seamen ... 'At the office all morning to get a little business done, I having, and so the whole office, been put out of doing any business there for this week by our trouble in attending the Parliament ... I was not fully satisfied ... because this morning Jacke Fen came and showed me an order from the Commissioners of Accounts, wherein they demand of him an account upon oath of all the sums of money that have been by him defalked [subtracted] or taken from any man since their time of enquiry upon any payments; and if this should, as it is to be feared, come to be done to us, I know not what I shall then do, but I shall take counsel upon it' 21st February 1668.

Although these extracts date from nearly 350 years ago, I have cited them to question how much has really changed in accounting for public spending? Finance is still the centre of everything. Ambition is limited by resources. The executive still attempts to have its way and officials think they know best. Parliament is focused on annual cash appropriations. Mistakes are made in administering, yet governments provide reports often to get themselves off the hook. Bureaucrats are ever anxious about parliamentary scrutiny — the 'hotspurs'. Yet the scrutiny of parliament is more a threat or more latent than real or actual — and parliament does 'soon weary with the business'. Accounting methods are a bit suspect and some assumptions would not bear close inspection. The world may have changed a great deal since 1666 but some things have remained.

The other reason for choosing this period as a point of departure is that many of the things we, in Westminster-derived systems, accept about government finances (and take for granted) date from the internecine conflicts of the C17th. The executive rather than parliament formulates the budget; parliamentary approval is required for spending; the concept of an
annual budget presented to parliament is a powerful convention; at the other end, parliamentary scrutiny of financial spending regularly occurs; there is an agreed need for auditing and reporting of accounts; and parliament has the authority through commissions or committees to probe officials (not just ministers) over their use of resources.

I first became interested in budgeting when I was asked to assist in putting a budget submission together to a state government for a public sector union. Activism got me hooked. I had also used the Commonwealth's annual budget for teaching purposes with Bruce Macfarlane. As a student of politics, I was increasingly impressed by policy analysts (such as Ian Gough, James O'Connor and Frank Castles) who followed the money trail, looked where the money had gone and tried to explain why — mainly their studies focused on general patterns of state spending and social welfare policy. Other sources of inspiration were Wildavsky's theories of incrementalism in the US system of budgeting — this was the notion that budgets grew by regular often small increments, becoming ever larger as they did so. Wildavsky had the virtue not only of a highly original mind, but of combining a sense of the politics of budgeting with a strong scepticism that budget reforms were not necessarily always what they were claimed to be.

My own research into budgeting was purely accidental. When I arrived at Griffith University, I was asked to participate in a comparative analysis of policy making in the Australian states — and, working with Peter Coaldrake — we were given the budgetary process. But there was a lot going on at the time — state treasuries were beginning to change their way of doing business, but there was also much posturing both of which interested me. Then as one of the principal researchers in the Centre for Australian Public Sector Management — established in 1987 — I coordinated a book on budgetary management and control at the federal and state levels — and began working with John Forster — the start of a productive and enjoyable research collaboration. Joanne Kelly joined our team in 1996 and this year she finished her PhD on the role of cabinet committees in budget-making. I wish to acknowledge their collaboration and intellectual contributions.

Since then we have produced research on the different patterns and outcomes of expenditure control at the national level in Canada and Australia (over the mid-1980s to late 1990s) — explaining why Canada had mountainous debt and high annual deficits, whereas Australia had had surpluses, low debt, and then smallish deficits in the early 1990s. Our findings were that the nature of the budget process and the political-administrative culture were fundamentally dissimilar. Canada had multiple windows for spending top-ups and was motivated by the notion of 'policy integrity' — that intention of the policy should be achieved even where further spending was required. Australia, by contrast, had restricted windows — a single powerful budget committee of cabinet — with agencies given money and told to manage with that — cutting their coats according to their cloth. What was also interesting was that below the surface, both had adopted similar types of budget reforms — even though dissimilar outcomes were observed — proving that there is no one-to-one relationship between reform and outcome and that at this level for reforms to work they have to fit the political culture.

I should mention in passing that three books have been written on budgeting in Australia since the 1970s and all are by professors of politics based in Brisbane. Patrick Weller who's *Treasury Control in Australia* had the misfortune to be instantly dated when it was released the same day that Malcolm Fraser split the Treasury (a proposition the book had considered but rejected as too problematic). Ken Wiltshire from the University of Queensland who wrote a book with Ken Knight on *Formulating Government Budgets* (1977), which presented a comparative analysis of presidential and parliamentary systems and highlighted some of the contemporary budget innovations — containing a few quotes from Pepys. The third book is
As I became more interested in government budgets and budgeting it soon became apparent that the topic was something of a real lacuna in political science. There was virtually no interest in how the state spent money or resourced itself. With the couple of exceptions already mentioned, there was almost nothing written on the topic. Yet, to my mind the discipline of politics should have been a central field of inquiry. The types of questions asked by political science should have been asked of public budgeting and finance in Australia. Overseas there was greater interest but for the most part this tended to be domestically-specific. The United States, the United Kingdom and Canada had each attracted a body of research in this area — driven in part because formal training in politics and public administration are seen as far more important in public sector employment. The critical mass of scholars and researchers was important to the development of the area. Compare the US where there are two professional associations of researchers — the largely academic Association for Budgetary and Financial Management (with around 700 members) and the largely practitioner American Association for Budget and Program Analysis.

In Australia, those working within the discipline of politics have remained focused on other topics — for example, the politics of place (Australian or regional politics — the here and now); political theory (normative and philosophical concerns); political behaviour, psychology and sociology (often empirical and behavioural); the politics of others (political anthropology, gender relations, ethnicity or the study of indigenous politics); issue politics (urban, health, ageing, water, crime, corruption); political economy and international relations.

I am not going to offer any definitions of politics — this is not the place, they are always contested and serious definitions are often dry.

Some of my favourite and more illuminating comments that have been made about politics include: politics is 'the strife of interests masquerading as a contest of principles'. Some who have engaged in politics describe it as 'going around the country stirring up apathy' — a statement with which both Lenin and Thatcher would agree — for different reasons. For those of you who share a little scepticism of the vocation of politics, the following quote may resonate: 'politics is as slippery as an eel in mud — and any evidence of the tail wriggling can be mistaken either for agitation or trembling'. Or coming closer to our topic tonight 'accountability is the mother of all caution, expediency is the father of all the
virtues'. With apologies to Lord Acton 'all power is delightful — absolute power is absolutely delightful'. One that you'll probably recognise: "'Sir, you laugh at schemes of political improvement'. 'Most schemes of political improvement are very laughable things'" — of course, from Boswell's Life of Samuel Johnson, a comment that not only suggests a classic conservative position but that reforms may not always be what they are made out to be. The French political economist Frederic Bastiat remarked that 'government is the great fiction, through which everybody endeavour to live at the expense of everybody else'. My real favourite 'the greatest, the most important power entrusted to government is the right to tax the citizens, it is from this right that all the others flow. Today, therefore, political science consists essentially in being able to draw up a good budget' (not a recent quotation — from Henri, Comte de Saint-Simon, 1819). Perhaps more seriously, 'politics are vulgar when they are not liberalised by history, and history fades into mere literature when it loses sight of its relation to practical politics'. There may be more than a grain of truth in many of these comments.

If politics has tended to turn a blind eye to budgeting, other fields of study haven't. Public finance is a small field in Australia and dominated by economists (Cliff Walsh, Peter Groenewegen, John Freebairn). Mostly they are concerned with theories of public sector growth, how governments impact on the private sector, prices, wages, stability, debt and taxation. Occasionally, economists will ask certain idiosyncratic questions sometimes quite baffling to non-economists. I remember reading a study of whether the allocative pattern of funding by a national Arts Council was 'optimal' — a question I can't imagine anyone other than an economist would dream up, yet surprisingly it was answered in the affirmative even though the Council's goals were difficult to ascertain with precision and it was impossible to gain consensus on the value of the artistic outputs.

We have seen considerable work in Australia on fiscal federalism — investigating the nature of the financial relations between the Commonwealth and the States — most of this work simply discussed trends and reported on 'fiscal equalisation' and much was preoccupied with concepts of dubious worth such as 'vertical fiscal imbalance'. The late Russell Mathews was principal in this field. Some of this research was applied and fed into the work of the Commonwealth Grants Commission, but the Federalism Research Centre at the ANU was closed down by government when its orientation was seen to be of declining relevance to policy-makers. The literature on public administration or public management tends to include normative and best practice models of resource planning. Occasionally, some practitioners wrote about their current experiences or advocated reform changes (I'm thinking here of Mike Keating, Malcolm Holmes, Ian Ball, Don Nicholls, David Ford). Traditionally, the academic public administration texts tended to present budgeting as a mystical thing where officials were trained to follow due process and approved instructions; more recently, in New Public Management there are assertions that 'increased financial flexibility' will improve management capacities and allow improved advice on the resource implications of meeting government objectives (jargon for more effective spending). There is now a growing number of articles recording non-critically the introduction of new techniques in agencies or jurisdictions (this seems a world-wide trend). But there is limited analysis of how budgeting works, whether the nature of budgeting is changing or the impacts of different systems of budgeting, or whether we now budget and manage money better.

Finally, public sector financial accounting has emerged as a new field attracting academic accountants who work in a multi-disciplinary context (Warwick Funnell, James Guthrie and Chris Ryan). Their work has highlighted accountability issues and provided justification for the adoption of more business-oriented accounting methods. But again while their work has explored the implications of adopting new accounting technologies for the public sector, they do not focus on budgeting or budgetary politics.
So, why should we focus on budgeting? Because in many ways budgeting is the motor of government, yet it is often misunderstood and misdiagnosed.

**Exorcising Budget Myths**

Indeed, there are a whole series of widely accepted myths that have grown up around budgets that often confuse our thinking on the topic. Some of the main myths are:

- **Myth 1**: Budgets are constitutionally required. Not true. Budgets are conventional rather than constitutional. There is nothing in the Australian Constitution that requires budgets be presented by governments, although there are a few clauses regulating the use of public monies. For instance, all spending has to be by voted appropriation of the Parliament (s. 83); there has to be one consolidated public account — called the Consolidated Revenue Fund (s. 81); Parliament has to sit at least one day per year — 'twelve months shall not intervene between the last sitting of the Parliament in one session and its first sitting in the next' (s.6). There is also no 'tacking' allowed — adding other financial or non-financial measures to money bills for the 'ordinary annual services' of government (s. 54). States are in a similar situation — that budgets are not a constitutional requirement.

• **Myth 2**: Budgets show rational priorities (a hangover from rationalistic or pluralistic American political science). This is the notion that the composition of budgets has been weighed, rationally analysed, and deliberately chosen. The problem is that there is very little evidence of this internally or externally. Large parts of any budget are inherited and some of the initial reasons for spending have been long forgotten, been overtaken by events or the purposes have changed. Anyone familiar with overseeing a budget will attest to many of the irrationalities and 'lock-in' that drive or occur in the process.

• **Myth 3**: Budgets are invariably incremental — a seductive view and one that may seem hard to disprove. Wildavsky argued that in the expanding post-war economy of the US budgets tended to be incremental. There is less risk, less chance of making mistakes...
and a good chance that budget decisions would be broadly accepted. But this was not necessarily so for developing nations or organisations facing greater uncertainty. The problem here is that an idea which was specific has been extended to a generalisation and made normative — the proposition that budgets ought to be incremental. Developed governments have made considerable changes to their patterns of expenditure — both in terms of new items. In Australia substantial increases have occurred in social spending growing from 21 percent of GDP in 1975 to 39 percent in 2001; or the introduction of Medibank and Medicare which created major increases in public provision for health rising from 6 percent of Commonwealth outlays in 1965 to 15 percent in 2001 — further increases of around $2 billion per annum have occurred in 2000 and 2001 also due to the introduction of a 30 percent rebate on private health insurance. Moreover, many governments have substantially reduced resources to certain policy areas or extracted substantial savings in the annual budget round.

• Myth 4: Budgets are principally allocative — concerned with allocating scarce resources between limited ends. Some writers present this as budgets are 'democracy at work' but I can't think of anything less democratic than budgeting. Today, although some allocation and reallocation goes on — this function is of declining importance and far less important than generally believed. Nearly 80 percent of the Commonwealth budget is non-discretionary and a further 10–15 percent is tied to areas in which very limited discretion exists (for example, defence, customs, taxation collection, national institutions of government and law). In one year (1986) the Commonwealth had just $80 million to allocate in the budget round — equivalent to 0.001 percent of outlays that year. In this election year the supposed cash surplus of $500 million represents around 0.26 percent of total Commonwealth outlays.

• Myth 5: Budgets are about restraint — there is less evidence for this assertion. First, restraint is not always attempted, and many governments (for example, Queensland over the past two decades) have explicitly selected growth rather than restraining expenditure. Second even where governments try to achieve restraint they are often not successful — Savioe's study of Canadian governments that sought to impose restraint from the mid 1980s to the early 1990s, or Thain and Wright's study of British expenditure control, showed government objectives had very limited effect — the best that could be said was that in the absence of their declared goals of restraint the spending spree would have been worse. Remember too, in Australia one of our most hardline Finance ministers (who produced four consecutive surpluses) Peter Walsh entitled his memoirs 'The Confessions of a Failed Finance Minister' essentially because he was unable to impose restraint on his colleagues.

• Myth 6: Budgets are about control — there are two dimensions to this myth — first, that control over the supply of money equates with control over what can be done — this was not true of line item budgeting and this is still not true today with one-line budgets (if governments do fund something, it does not mean it will be done or done for the set price; and if governments don't fund something, it does not mean it won't be done). There are other forms of control in government, but increasingly budgets and money are becoming less important as instruments of control. Second, some argue that routinisation is a form of control (for example, the process of the annual budget review) and that routine contains 'the politics' (a behavioural control). Many writers have followed Wildavsky and argued that budgetary routines reduce the politics involved in rationing scarce resources in the public sector. This may, I think, have been an accurate view in the post-war years of expanding budgets and rising economic growth. But developments since then imply some reappraisal is necessary. But as Allen Schick has argued from the American experience, routines also build frustration and countervailing
or non-conforming behaviour. (Routines are like a large softly inflated balloon — lean on one side hard and another side moves out). The same routines in different times can exacerbate or excite conflict. The mechanisms of control are at the same time the mechanisms by which control is usurped and undermined.

**Myth 7: Budgets are about greater transparency — the glorious myth!** This is the notion that we can have 'open government' — and as an iconoclastic administrator in a popular TV series once said: 'You can have openness or government but you can't have both'. A few years ago the main Canadian budget agency embraced an ambitious plan to improve budget reporting to parliament and bring members in on the formulation process (to involve them more, give them more ownership and commitment, more information). The scheme lasted for a few months and did not survive the annual budget round — it was scuttled by the President of the Treasury Board who realised he was providing ammunition to his opponents. In Australia, the long-professed, romantic aim of managerialist reformers in the 1980s and early 1990s was that their budgetary and management reforms were designed to make parliament better informed and better able to scrutinise the management of public organisations. But Parliament snored on ... They weren't interested in tonnes of information making government look good or in calculating how ever-changing program structures could be analysed from year to year. The main thing parliament was interested in was scandals, and ministers couldn't help but oblige — with their whiteboards, travel allowances, frequent flyer points and mobile phone pin numbers — all relatively trivial in financial terms but explosive in political terms.
Myth 8: Budget reform makes for better resource use and decision-making — the nub of where I want to get in this lecture. Every budget reform since the 1960s has given efficiency and improved resource use as its main object — yet surprisingly little evidence has ever been presented to show that this has been achieved. There are lots of war stories recounting valiant attempts to introduce budget reform, where those being ‘reformed’ were found not to be on the wavelength. I am reminded of set of Commonwealth reforms that tried to impose an efficiency clawback on all public sector agencies — it was intended to make them more efficient in their use of resources. Spending on programs was exempt but the administrative or operational costs of delivering programs was subject to a clawback of 1.5 percent per annum. Now, the Australian Broadcasting Corporation attempted to evade the clawback by claiming that as a national broadcaster its entire budget was spent on programs (TV programs) — so its entire budget should be exempt from the clawback — a proposition no one fell for. Similarly, the Department of Defence, with one of the worst records of resource management, argued in the early 1990s that none of the Department of Finance’s budget reforms should apply to it because it had its own internal resource management system that was superior to Finance’s.

Understanding the Role of Budgeting in Modern Governance
So, what then are budgets about? Budgets are different things in different countries or contexts. In Australia we are used to a consolidated expenditure and revenue budget within a so-called ‘national fiscus’ (an inter-jurisdictional mechanism for overseeing borrowing — the Loans Council). The Australian budget consists of a range of budget statements covering an assessment of the economy, major changes to taxation and spending, agency resourcing, and federal financial relations. In the United Kingdom, the budget is a revenue document adjusting rates of taxation; expenditure provisions occur elsewhere. In Canada there are two
separate meanings of the budget — the main one is an economic plan or set of projections reporting the likely state of the economy including the government's fiscal spending plan; and the second a set of government spending estimates (the Main Estimates) tabled in February. In 2001 the Canadian government chose not to have a budget — meaning there was no economic or fiscal plan announced. In the US the budget remains essentially old fashioned — a line item presentation arranged into programs (the same as Germany) — but the process of approving budgetary measures is perhaps one of the most convoluted in the world and accordingly open to a 'spoils mentality'. The president and cabinet formulate most of the main spending initiatives, but need to secure Congressional approval from both houses (which may be difficult), while other significant agencies help frame or amend the evolving spending bills (the Office of Management and Budget, the Congressional Budget Office and the US Treasury). In Sweden there is an annual budget presented to parliament (usually around September) but the material presented is from six or so entirely separate entities (responsible for general government, social entitlements, retirement incomes, health, housing etc) — each of which operates separately and in a sense runs an autonomous set of accounts and budget. In China there is far less attention to the notion of a budgetary plan of expenditure, an eight-page global allocation is secretly prepared and shown to very few outside the central committee (and although the People’s Congress approves the budget, it does so without seeing it). Given the intense secrecy, there is ample scope for top-skimming by provincial or agency officials, and those further down the resource chain never know quite what their element received from central coffers.

These differences are not merely semantic points. They suggest that analysing budgets is inherently difficult because we are not dealing with a common entity or a single statement of objectives. Even within a certain jurisdiction, budgetary objectives may change from year to year — especially in relation to the economic or electoral cycle — and some change significantly within years (for example, in the event of terrorism, war, economic downturns). When American scholars such as Irene Rubin state that one should first analyse budgets as a document or documents, it is not clear which documents would be included under such a heading. For example in Australia — the main Budget document has a Budget Speech, four main Budget Papers, 20+ Portfolio Budget Statements, a Budget Overview for the media, associated Ministerial Statements, and press releases. In addition, other budget documentation is released at other times such as the Mid-Year Economic and Fiscal Outlook, the Final Budget Outcome, and in election years the pre-Election Economic and Fiscal Outlook. Not all of these documents say the same thing either in one year or over years. Moreover, there has been a consistent pattern over the past six years with the budget forecast predicting a moderate budget outcome twelve months out, followed by a mid-year review which predicted a far worse outcome was likely, before the final outcome came in considerably higher than either predicted.
From my research I would say that there are three crucial features to the role of budgeting in modern governance (and hence best way to begin to understand budgets). These features do rest on a given cultural and conventional understanding of budgeting but are not necessarily national-specific or Western-centric. First, modern budgeting is an information exchange relating to resources (or government's impact on the economy). Here I mean budgeting is an enduring process of communication and informed dialogue — maybe involving guardians and spenders, maybe with governments and markets, governments to the media, senior executives of departments and their management team, departments and constituents or clients. The dialogue could involve some bargaining but it does not have to — the information exchange may involve various topics such as spending proposals, limits to agency budgets, ceilings, new initiatives, organisational profiles, plans, program objectives or performance targets. It may simply involve one actor presenting to another how it intends to spend an amount of resources already agreed. The dialogue can be informal and premised on an inner sanctum who share customary understandings (Hecla and Wildavsky's notion of a 'village community' in Whitehall) but the dialogue can also be from government to the private or voluntary sector — using outsourcing, tendering processes, and operating through rival business units. The uses to which this information exchange can be put are various: coordination across government or coordination within an agency, performance monitoring, reporting. I would argue that this feature increasingly comes into its own as budgets become more sophisticated and complex; in other words resourcing is not hand to mouth and budgeting is not chaotic; it is also now greatly enhanced by information technology.

Second, budgeting will remain political despite the claims of various technicians that it can be de-politicised and made neutral (choices are made about what to present, what to include, what to assemble, what to exclude, and even the most neutral presentation of budget figures is politically driven as are the responses of actors to that information). In most Australian jurisdictions budgeting has been made more technocratic over the past 20-30 years. Despite the scope for political decision-making becoming restricted or narrower, political actors will find other ways of opening up latitude and influencing outcomes (for example, at the Commonwealth level, work-for-the-dole and job-search diary schemes for the unemployed or crackdowns on welfare payments which began in the early 1970s, are not just aimed at ensuring beneficiaries are genuine and meet the criteria, but also at containing outlays — and there can be clearly an added dimension of political posturing involved). Politics matters and will continue to matter. Politicians and leaders will insist on having the chance or the option to reaffirm, remake, revise or refine or even veto policy choices — and the budget process provides them with such an opportunity. And, I think, as I shall come to below, that the senior political executive is becoming more important in this process rather than less.

Third, while writers such as Wildavsky described the functionalism of process and procedures in a budgetary context, it is more important to recognise that budgetary processes must be changed regularly to remain effective. It was once thought that budget reform was a phase we had to go through to rid ourselves of cumbersome procedures before emerging on the other side with better tools of management. This was both the dream of the reformers, and the hope of those enduring the reforms on the ground — a bit of pain to get the gain. But for those people, it is bad news; the need to reform budgetary practices is ongoing and imperative. This is not to present budget reform as an end in itself, rather to say that without regular changes to budgetary processes the system risks becoming dysfunctional. There is no nirvana in which we can sit with perfect knowledge amid altruistic behaviour. A good example of this was the life and death of the Running Costs Arrangements in the Commonwealth — a scheme operating from 1986 to 1999 for circumscribing and limiting the administrative budgets. Each year the running cost budget of agencies was meant to be
shaved, in theory becoming reduced as governments squeezed their resources (a term the former Labor minister Gary Johns used). And each year the government tinkered with the rules — allowing agencies to carry-forward or borrow, adding items in like property costs and senior executive salaries. But, instead, the composition of running costs budgets grew (some considerably), largely because departments came to realise that only way to have their administrative budgets increased was to propose new policy initiatives and have them accepted by cabinet. Governments could not sign off on new policy without giving the administrators some additional resources with which to implement the initiative; and so the number of policy submissions grew and a mentality of 'you had to be in it to win it' developed, with some departments rebadging existing policy in an attempt to re-win additional resources. Despite governments insisting on offsets, the tables were beginning to be turned by the late 1990s — but it was not for these reasons that the scheme was abolished in 1999 — rather accrual budgeting with a single figure for an agency including administrative costs, depreciation and other liabilities removed the need for separate running costs amounts — the last year's running cost budget was transferred across into the new system and then jettisoned. This example, illustrates an important point in the use of resources in the budget-dependent parts of the public sector. Given that there are no real markets in these parts of the public sector, all stable processes risk being subverted by those they are meant to manage or influence. Unintended consequences will gradually outweigh intended action.

Assessing the Record of Budgetary Reform

In coming to a theme or title for this lecture, I decided to use the title of one of Lenin’s famous early essays One Step Forward, Two Steps Back but adding a question mark — are we taking one step forward and falling two steps back? Lenin wrote his famous essay in 1904 about the internal politics of the Russian Social Democrats. He warned his party colleagues that, although the party was making some progress (in its organisation and consciousness-raising), their internal divisions, points of disagreement, arguments over rules and opportunism, were taking them further away from their prime objective. But Lenin’s objectives were relatively clear at this stage — topple an oppressive regime and develop a social program for a new society.
Budgetary reform is a different kind of animal. There are formal objectives to do with economy, efficiency and effectiveness — these are probably most cited in the long trajectory of budget reform — no one proposes reforms that are inefficient or likely to reduce effectiveness (even if that turns out to be the case). There are operational objectives to do with managerial flexibility, devolution, enhanced capacity to manage resources including through outsourcing and bureau-shaping. But there are also substantive objectives concerned with making resource management systems more responsive to politicians (and especially senior political executives) — some might call this political command or direction. And, of course, the last substantive objective may not be consistent or compatible with the first two.

If we consider these objectives together, we can see some successes over the decades but also many failures or hikes up dry gullies (and I am not going to list all the reforms that have been attempted — merely highlight the main trends). Certainly, some initial (and often timid) reforms had to be attempted and in place before it was possible to do other and perhaps more adventurous things. But many reforms were fragmented or disjointed and many were intended to address aspects of the myths just identified (believing if they could just make budgets about control, restraint, allocative efficiency etc then the world would be a better place).

The most immediately obvious aspect of budget reform was that it was largely driven by budgeteers (budget bureaucrats) who periodically got the ear of politicians. As fiscal stress/stringency increased after 1975, their arguments were increasingly heard and ideas implemented. Budget reform was heralded with much fanfare if not hyperbole over what improvements could be expected. From the early 1980s to the late-1990s budget reform was the major change-agent in new public management in Australia — imposing an economistic and financial-centred logic over other types of reforms (true also for New Zealand, but far less so for the UK, US, Canada and continental Europe). One of the problems here is that the items chosen for reform were often discrete problems or irritants to central budget agencies, not necessarily to other actors, although the public rationalisations did not suggest this was the case. At one stage not a single budget-dependent agency in the Commonwealth wanted accrual budgeting; politicians had never heard of it; the only people who did want it was a small group of accountants in the Department of Finance, yet they have carried the day. When the first accrual budget was being prepared, Treasury suddenly realised that it was not going to present the kind of economic or fiscal figures we had provided in the past, and tensions have existed over which sets of numbers to use in the Commonwealth budget since 1999.

Trying to make sense of their world while proselytising the latest innovation, these budgeteers tended to construct their reforms as coherent plans, sometimes even with post hoc rationalisations. But in reality they were caught for periods within particular trajectories — which became path dependent and inwardly focused — before breaking at some point and moving off to a new trajectory (often, though not always, in response to a change of government or prime minister). In the 1970s the main trajectory was expenditure control (reducing the windows through which slippage could occur and tightening in year controls). In the 1980s the trajectory moved to the management of resources and forward estimates became ‘hard’ meaning that they were the budget if no other policy adjustments occurred. In the early 1990s the trajectory moved to the need for reallocation, offsets and increased targeting of individual benefits (targeting non-discretionary spending more effectively). With techniques such as offsets, the government began to change the relationship between guardians and spenders — with the spenders (especially the senior managers of spending departments) now beginning to act as quasi-guardians — reining in money that was otherwise committed in the forward estimates (but perhaps less effectively or no longer considered crucial), and re-allocating this to new priorities.
But within these trajectories budget reforms are often talked about and don't happen — or are not mentioned and do happen. A good example of this is the FMIP an acronym bandied about in the 1980s and early 1990s which meant all things to all people and ended up meaning absolutely nothing to anyone. It was quietly abolished (or superseded) in the late 1980s. Interestingly, a number of academics writing on new public management found the FMIP and, perhaps because it had scary connotations, they wrote as series of articles about what it was and was going to do — virtually just as it was being buried. Alternatively, portfolio budgeting with consolidated ministries (a system practiced by the Commonwealth and most states) went along almost unnoticed until the current Auditor-General, Pat Barrett, suggested that this was occurring almost by default. Portfolio budgeting was an interesting reform because it combined the behavioural incentives of guardians and spenders. The guardians got to set the aggregate limit on the portfolio without too much interference into the policy domain, but then the line minister and main department had considerable autonomy to shift resources to where the priorities of the government or minister lay. It worked well where ministers or senior executives had some vision and good judgment, it did not work well where ministers were a 'policy-free zone' or were poorly advised.

In the late 1990s and the last couple of years the trajectory has moved onto a results-outputs framework along with more commercial accounting practices such as accrual reporting and budgeting. Accrual methods were chosen to give a more accurate and transparent view of the state of government finances. There was also a strong push from central agencies to reduce everything to a bottom line result — and this was reinforced by Peter Costello's attacks on the Keating government for not declaring the underlying fiscal or budget balance. The need for an underlying surplus became a fixation — even to the extent of proposals to force governments to produce an annual underlying surplus instead of the looser objective of aiming to be in surplus over the economic cycle (current policy). This would have been difficult if not impossible for any government to achieve when its financial position is so sensitive to the economic cycle and to levels of unemployment (with benefits being a statutory entitlement not a form of budgetary largesse). (As an aside, it is salutary to note that as the underlying budget balance for this financial year has fallen into the red to the tune of $3.1 billion (ie, a sizeable deficit and another one predicted for next year) the Treasurer, like Keating before him, has gone back to the cash balance which presents the government in a slightly better light!).

**Budget surplus or deficit, it's a matter of semantics**
Already there are some cracks occurring and a new trajectory may take off over the next few years. The enormous push to introduce the accounting reforms over the years 1998–2000 severely tested if not eroded the policy skills and analysis of the central budget agency. Accounting tolerances in data entry came to replace policy analysis and scrutiny. Parliament has been highly critical of the new accrual documentation claiming it is less informative than before and that the underlying assumptions are opaque. Parliamentarians have criticised the high level of aggregation shown in the figures, the lack of comparability year-on-year, the lack of information on what are included in the figures, and the basis for calculations. Although the government prides itself on the Charter of Budget Honesty, introduced in 1998, it has effectively circumvented the pre-electoral requirement to provide the true state of the books by producing a political mid-year review which the markets have adopted; and the Commonwealth consistently refused to include the GST in its own financial statements giving a very distorted picture of its true financial position. Moreover, it is clear that the adoption of an accruals framework does not necessarily mean that agencies will spend their funds appropriately — for example when the national art institution received additional funds to cover long-term employee liabilities, it spent the funds on a new foyer because the new management did not like the old entrance (the result of such behaviour is that these kinds of events will cause agencies to be more tightly scrutinised by the Department of Finance — especially as financial reports will be produced on individual material agencies).

Hence, looking back over the past decades, it is not so much that the path of budget reform had been sapped by internal discord over the particular directions to be taken. We are not dealing here, as Lenin was, with a fractious party. Rather there is a structural dynamic at work that is fundamental to budgetary reform. All moves toward reform carry in a sense the germs of their own destruction or seeds of their replacement. In that sense all initiatives toward budgetary reform are a combination of steps forward and steps backward. If this is the structural dynamic impacting on reforms that by nature are selective, partial, temporary and eventually superseded, then wouldn’t a ‘big bang’ approach avoid this problem? It may be tempting to dream of a solution that is more comprehensive, overarching, participatory, ameliorable and self-calibrating — hitting everything in one go — but such a solution is neither likely to occur nor feasible.

So do we manage public funds better today than previously?
Politicians are often accused of manipulating policy for expedient purposes — taking soft options, cranking up the deficit, using fiscal policy to enhance their electoral prospects. But do governments buy their way back to office? Since 1970 we have had 13 federal elections — and if we examine spending patterns a clear picture emerges. From 1970 to 1983 six elections were held and in five of them the budgeted spending in the year of the election was greater than either the year before or the year after — in other words a possible electoral effect. The single exception is 1975-76 (Hayden’s budget in the year of the dismissal of the Whitlam government) when it was impossible to crank up expenditure greater than the 16 percent increase that had occurred in 1974-75. Since 1983 there have been a further six elections, and in no election year has the level of spending increase been greater than either the year before or after — in other words a possible electoral effect. The single exception is 1975-76 (Hayden’s budget in the year of the dismissal of the Whitlam government) when it was impossible to crank up expenditure greater than the 16 percent increase that had occurred in 1974-75. Since 1983 there have been a further six elections, and in no election year has the level of spending increase been greater than either the year before or after. Indeed, in 1987-88 the year John Howard ran against Bob Hawke and again in the lead up to the 1998 budget real expenditure growth was actually negative — spending in real terms contracted in the election year. But over the 30 years, the economic cycle has a much stronger relationship to level of expenditure than the electoral cycle. An alternative analysis would suggest that to the extent that bureaucracies set out to maximise their resources and maximising bureaucrats exist, senior politicians are the one group in society who can contain them and who have the motivation to do so. Politicians have become astute at delaying their electoral promises so that they do not apply until three to five years
out (for defence it runs out to 10 years). Now that sound financial management has become a bipartisan culture, it is in the governing politicians’ interests to impose selective constraints. Containment does not necessarily reduce the size of government but frees up resources and provided latitude for political initiatives elsewhere in the budget round.

Recently, the US General Accounting Office regarded Australia as among the best performing nations because in the 14 years inclusive from 1987 to 2000 it had achieved 8 budget surpluses — the only nation to do so other than a few oil-rich nations such as Norway, Kuwait and Brunei — and Australia kept debt levels down (now about 5 percent of GDP) and weathered a major recession in the 1990s and then Asian financial crisis later in that timeframe. But does the achievement of surpluses mean that we are managing well? Generally for the financial markets it does (but not always). However, all this means is that our revenue growth is greater than our expenditure growth — which it has been in the past seven years straight. But this doesn’t tell us whether we manage the spending better. If the business cycle is favourable the likelihood is that we will deliver small surpluses because the cyclical demands on the budget will be lower. This analysis of the fiscal role of budgets raises another issue, though. Why do we have to fund deficits in times of recession from borrowings and increase the size of the debt, when we can produce surpluses in years of growth? Should we not establish some way of holding onto surpluses (establish an economic cycle fund or invest equity in some assets) to hold over for the inevitable downturns? There are not only the economic implications in acting in this way, but governments notoriously find it difficult politically to hang on to surpluses — remember the surplus for the out years was initially projected to be $8 billion running out to a $14 billion surplus (later this was reduced to $2.5, then nothing).

Do we manage money better in agencies and programs? If we focus purely on financial management, I think there is a qualified yes to this question. We can manage resources better today than say the 1960s or 1970s. We have better information and much quicker monitoring; we have a number of proven ways of rationing resources if governments are so disposed (principally, but not solely, through cabinet budget committees); we have better information on how resources have been deployed in-year and information from government evaluations of programs. We have a substantial body of performance audit reports from the Auditor-General which are not only occasionally finding fault but also producing lessons learned and best practice administration guides.

In terms of policy spending (the management of money from our policy choices) the answer is more problematic. Since 1993-94 we have had senior ministers setting annual strategic priorities that shape budgetary decisions (a positive development). Less is left to chance now or to the untested rhetoric of a persuasive submission. There is more sense of priorities being contributed to across government agencies and programs. However, alternatively, governments have introduced a number of demand-driven policies that are costly to the budget and relatively uncapped — although governments have based their policy decisions on estimates, demand may be unpredictable and unlimited. Examples here include the health insurance rebate (over $2 billion), the diesel rebate to farmers and miners (close to $1 billion), rent subsidies, negative gearing on taxation for landlords. There are questions of the effectiveness of these measures, whether they are sufficiently targeted, and whether governments can control their expenditures with so many demand driven policies out there. Of course, governments can change the nature of the schemes or the criteria of qualification, but the schemes also build community expectations and institutional dependencies which may be harder to break. State governments, with relatively more fixed expenditure commitments and revenues, have not gone down this track to anywhere near the degree the Commonwealth has ventured.
Then there is the related question: if spending money better means do we spend money wisely, this is much more difficult to answer and largely subjective. We have reduced public sector employment but are paying for more people to be on the dole and various supporting benefits. We once used the post office and the railways as work for the dole schemes — but with the recipients gaining some self-respect from their employment. The current work for the dole scheme costs more and operates without regular employment and recipients do not get a strong sense of self-respect. If you believe we should spend more on health or education, or defence, then in part it is a subjective assessment, in part a policy choice and in part driven by the costs we are likely to incur irrespective of options taken. Many think tanks and research institutes run agendas on how we should better spend money within policy areas; for instance, health professionals debate the merits of private versus public care, preventative versus curative or palliative care, institutional subsides versus personal tax rebates. The budgetary allocations and future projections may provide information to these debates, but the budget context not be the best place to try to resolve these debates. Often they are a clash of values and preferred actions — and governments will resolve them or deflect them in standard political ways.

However, there are still sacred cows in the public sector; still powerful ministers with powerful constituencies; still areas where it is hard to scrutinise actual expenditure or establish whether the taxpayer has received value for money. A considerable amount of money is currently being committed to rural and regional Australia — much of which may not represent the most effective use of money. These are political choices which come at a cost.

**Where to Next? A Prognosis**

Finally, the public sector has laboured under an era of neo-liberal rhetoric of reducing government responsibilities and trimming employment levels. There are strong signs that this ideology is abating, not to be replaced with old-fashioned indiscriminate intervention but with more selective government facilitation in wider areas of social and economic endeavour. The size of the public sector in Australia is currently around 38 per cent as measured by GDP; I would expect it will increase gradually into the 40s per cent as governments have to deal with three major costs to budget — building capacities through education, training, infrastructure, economic sustainability; providing support to those not economically active — in pensions, income maintenance, health care costs, supporting benefits, regional spending, refugee provisions, etc; and defence and security costs in the more uncertain world we have inherited after the Cold War.

There remain some big gaps in public accountability especially in demonstrating value for money for taxpayers dollars. Governments have talked about performance for nearly 20 years now and all have introduced some from of results-based presentations that they claim are linked to the budget process. At the Commonwealth this process is weak — we are given more performance-related information but it is often not then used for reporting purposes, what we are told is politically motivated, the targets or outputs can be changed by the participants, and any data generated is essentially judged by ministers and their offices. Although there is currently a huge effort going on to link performance issues into the budget process, maybe this trajectory is misplaced. Linking the two fields of budgeting and performance is likely to see neither achieved well — they essentially run on different and discrete logics. We may undermine the integrity of budgeting by insisting performance-related evidence is incorporated and used in some way as a basis of decision-making; and conversely, we may undermine the integrity of performance improvement if we try to run it through the budget process. In short, I'd argue that contrary to notions of moving to
performance budgeting — the degree to which the budget is a suitable mechanism for examining performance is highly questionable.

Some of the more concrete problems associated with performance budgeting are: how might we reward or discipline parts of the public sector in a results-based budget framework. It is always possible to incorporate performance-related information into the budget process (and such matters have been considered since the early years of Federation), but there are some real problems in using this information to formulate budgetary allocations. How could we proceed and what problems would we encounter? Do we set quotas, performance indicators or stretch targets? How can performance be accurately measured? In the private sector there is relatively little argument about performance measures — but they are simpler. In the public sector, the concept of performance and the nature of measurements (or findings) is highly contested and the subject of intense disputes. There is no agreed basis of comparison over time of between agencies. Also governments have to perform as well as they can in qualitative functions (for example, economic policy advice, the assessment of the needs or training requirements of the unemployed, the facilitation of a competitive environment) or in areas of society in which they have been forced to act or take on a role (for example, the treatment of asylum seekers, military performance in Afghanistan). If an agency over-performs do we reward it or cut its budget? If an agency underperforms do we censure it, reduce its funds, or allocate additional funds to help lift its performance. Is the answer different if a senior or indispensable minister is involved? In any of these cases the behavioural incentives lie essentially with the agent not the principal (as does the information). There are no easy answers to this conundrum — but perhaps we should try to address performance issues in their own terms not as part of a resourcing process. Some may respond that if we do not put performance issues into the budget then any actions that follow will not have teeth, but this suggests that the budget process can be used in such a way without generating perverse consequences, and that we cannot seek to improve performance even while leaving budgetary considerations to one side.

For a long time governments attempted to impose the same processes and conditions across the public sector — generally in an attempt to control behaviour and because they found it hard to make discriminating decisions across the range of services for which they were responsible. Gradually off-budget agencies arose such as the public enterprises, public banks, utilities, but the process stopped there. There may be increased pressure in coming years to disaggregate the expenditure budget even further than we have to date, to categorise certain types of agencies as like and budget for them in different ways and have different rules apply. We may want to use expenditure capping over some of the big policy items (for example, health, education, even entitlements if we established separate funds for the payments). We could fix a given proportion of funds or issue resource limits over multiple years, as a way of forcing managers within these areas to better manage the funds they are provided with. Alternatively, other areas may be funded on a proportionate basis tied to activity or to rates of return, or tied to a growth factor such as GDP. A relaxation of central standardisation (or greater customisation) will move governments away from the notion that one size fits all, and more toward the business practice of assessing various activities in their own terms and own objectives. Such changes may bring in a greater variation between agencies (which we accept over different jurisdictions but tend not to do so within the single jurisdiction)

We then come back to the notion of how far can budgets be strategic in the public sector (or be used to motivate by strategic behaviour). It was a truism in government that if ministers were given the choice between two options, they wanted both of them and possibly a third as well — these are the political realities with which we have to live and they are not going to change that much. However, one of my co-authors Steve Bartos head of Budget in
the Department of Finance argues that, taken as a snapshot, budgets do not express much strategy (although the government's senior ministers review does outline a strategic direction and identify a short list of priorities). But he believes that over time budgets capture strategy and show where and how governments have been prepared to make strategic decisions. Some of these changes may appear to be accidental or institutional, but the key issue here is to bring forward the debate about strategic directions and use this to inform budgetary decision-making. Some Canadian and US governments have attempted to use community-inspired strategic directions to inform budget choices and provide performance targets for public officials. Some have come from the right (like Alberta) with an austerity strategy and certain moral stances (for example, governments have accepted the goal of reducing the number of young single parents). Others have come from a more social democratic bent (Saskatchewan, Wisconsin, New Jersey) where the goals are about economic adjustment, community-building and living standards. Very few people in Australia could name a single strategy that has informed the federal government's overall budgetary stance other than sound financial management since the days of Whitlam and his social spending commitments. The challenge for government today is to develop a sense of direction, win some community acceptance and use this as a basis for planning and deploying its resources.

Note
1. Interestingly, the Constitution was meant to entrench the financial initiative in the lower House — preventing the Senate from amending 'proposed laws appropriating revenue or moneys for the ordinary annual services of government' (s. 53). Money for the ordinary annual services of government has been interpreted to mean funds for ongoing or recurrent expenditure — not covering capital expenditure or new policy. However, conventional practice (and intercameral agreement/acceptance) has allowed the Senate to suggest recommendations to the lower House even to the ordinary money bills — arguably in breach of the constitutional intentions. A defence of this exercise of Senate power has been reported in Odgers' *Australian Senate Practice* (3rd Edition, 1967:280).