

Evidence-Based Budgetary Policy: Speaking Truth to Power?

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Evidence-Based Budgetary Policy: Speaking Truth to Power?

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1. Introduction

The relationship between policy analysis and public budgeting has spurred quite some debate since the 1960s when Robert McNamara, secretary of Defense in the Kennedy administration, launched his Planning Programming Budgeting System [PPBS] in an effort to improve the allocation of resources and efficiency in the public sector. More recently, we have witnessed a revival of performance budgeting due to the NPM-movement that served as a vehicle to serve old wine in a new bottle, and arguably quite a powerful one. The bouquet is fine as the negotiations about next year's budget are now flavored by performance information. However, the aftertaste is somewhat backward as the constraint of performance budgeting have become clear. In this chapter we are looking back at this period of about 50 years of budgetary reform in order to assess the progress that we have made since the first efforts to establish a more evidence-based fiscal policy.

The chapter is structured as follows. First, we will pay due attention to the efforts of budgetary reform from a historical perspective [section 2]. The next section deals with the revival of performance budgeting as part of the NPM-movement that hit the world since the late 1980s. We conclude that the efforts to introduce performance budgeting may be characterized best as performance *informed* budgeting [section 3]. In addition, it may be argued that the NPM-movement and consequently performance budgeting is over the hill, raising the question what is at the horizon beyond performance budgeting. We feature two interrelated developments: the pursuit of an evidence-based budgetary policy and the growing interest in budgetary reviews, notably spending reviews in times of austerity [section 4]. The chapter is completed with a conclusion [and discussion].

2. Budgetary Reform

Performance budgeting has been a key driver of budgetary innovation in the United States for more than 60 years now [Schick 2014: 1]. A couple of years after WW-II, the Hoover-

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committee recommended that ‘... the whole budget should be refashioned by the adoption of a budget based upon functions, activities and projects: this we designate a ‘performance budget’ [Hoover 1950: 8; Schild 1985: 21]. The advice of the Hoover-committee was followed-up in the early 60s, when Robert McNamara asked the Rand Corporation in Santa Monica to design a system that would facilitate communication between the planners and ‘budgeteers’. Since it has not been quiet in the area of fiscal reform and tumbled over one of the other effort to improve the budgetary process [Annex 1].

Figure 1: *Schematic Presentation of the PPB System*

Structural Aspects	Analytical Aspects			Informational Aspects
	Planning	Programming	Budgeting	
Classification of the budget into: Functions Programs Activities Cost elements	Formulation of objectives Identification of alternatives Evaluation of alternatives Selection of the feasible course	Determination of personnel and resources needed for the fulfillment of objectives Determination of costs of such resources Determination of the annual profile of costs	Allocation of resources for selected programs Presentation of the budget in the program structure evolved for the purpose Formulation of operational targets	Progress reports on the implementation of the budget Adjustment in the light of progress Evaluation

Source: Premchand 1989: 328.

The story of the Planning, Programming and Budgeting System [PPBS] has been told over and over again. It worked well at the department of Defense and so it was declared applicable to all federal departments and agencies. In his speech president Johnson argued that the use of the most modern methods of program analysis would ensure a much sounder judgment through more accurate information, pinpointing those things that we ought to do more, spotlighting those things that we ought to do less [Williams 1998: 61; Radin 2013: 17]. Unfortunately, it did not bring what was expected in other policy areas and not long afterwards PPBS silently passed away [Schick 1973; Wildavsky 1974: 206]. The cause of death is attributed to a lack of political leadership, bureaucracy politics and inbuilt flaws of the system, but whatever the reason may be – probably a combination of several factors – the fact is that policy analysts and their work did not succeed to accomplish a substantial breakthrough of existing traditions and routines:

'PPB failed because it did not penetrate the vital routines of putting together and justifying a budget. Always separate but never equal, the analysts had little influence over the form or content of the budget' [Schick 1973: 147].

In an effort to rescue policy analysis – the ‘the heart and soul of PPB’ [Rivlin 1969: 915] – from public budgeting Aaron Wildavsky argued that the ‘shotgun marriage’ between policy analysis and budgeting had to be annulled since it was already hard enough to do a good job of policy analysis without having to meet arbitrary and fixed deadlines imposed by the budget cycle. He called for more selective use of policy analysis by the requirement to submit a program memorandum supported by policy analysis for major dollar changes in an agency’s budget [Wildavsky 1969: 196]. Wildavsky argued that policy analysis may be considered an ‘activity that should be distinguished from budgeting, which can and should be carried out alongside it ... Rather than posing the choice of either analysis or budgeting, he argues that analysis can be accommodated in different ways if it is separated from budgetary structures rather than incorporated in them’ [Jenkins 1978: 193]. The question though may be raised if budgeting is receptive to policy analysis as conventional budgeting is fundamentally anti-analytic. Consequently, the efforts to funnel policy analysis through budgetary routine are not very like to have effect [Schick 1977: 259].

The rest is more or less history. Many countries experienced with similar devices [Premchand 1989] to come to basically the same conclusions. In the late 1960s the French government, inspired by the PPBS, launched a large scale program, called *Rationalisation des Choix Budgétaires* [RCB], that was abandoned in 1980 for both structural and cyclical reasons [Perret 2006]. In the Netherlands we had the *Commissie voor de Ontwikkeling van Beleidsanalyse* [COBA], that served very much like McNamara’s whiz kids and was finally dismantled in 1981 due to its adherence to the paradigm of economic rationality and methodological rigidity. The COBA was ultimately dismantled in 1981 [Van Nispen 2015]. A similar is followed by the *Program Analysis Review* [PAR] in the United Kingdom that made significant impact at first, but gradually faded away because it was ‘unable to satisfy the technical, organizational and political preconditions for effective analysis’ [Gray & Jenkins 1982: 429] and eventually wound up, to be replaced by scrutinizes’ [House of Lords 1997-1998;]³.

The same applies to later efforts of budgetary reform, such as Zero-Base Budgeting [ZBB] under the Carter administration of which Aaron Wildavsky has concluded that ‘some butterflies were caught, no elephants stopped’ [Wildavsky 1975]. The pursuit of budgetary reform got a new impulse in the early 90s from NPM-movement that hit the world for about two decades. One of the off-springs was a revival of performance budgeting, i.e. the provision of non-financial information in order to improve the allocation of scarce resources

3. The British effort to rationalize the budget was part of three tier decision making system that was further composed of the Central Policy Review Staff [CPRS] overseeing PAR and Public Expenditures Survey Committee [PESC], which did not embody a detailed analysis of policy options [Premchand 1989: 340].

and efficiency by the public sector. Kicking off in New Zealand it soon spread to the Anglo-Saxon world and then to the rest of the world, largely thanks to the OECD which served as a platform to the rest of the OECD-countries.

BOX

Although the relation between PART scores and funding in OMB's budget proposal has been shown to be slightly positive by quantitative analysis (Norcross 2006&7, Gilmour and Lewis 2006), there is no evidence that supports a substantial impact on final funding decisions by Congress. In fact, some clues give away the impact must have been very limited at best. To illustrate this; of the 99 programs that were listed for elimination in the FY 2006 budget proposal, only 15 actually were by 2008. Even the Department of Education that in particular endured scrutiny from PART assessments with 48 proposed program eliminations, has only saw one of its programs terminated by Congress at the end of the Bush Administration. In the 2008 PART informed budget proposal, 27 programs were rated ineffective. The breakdown below shows that instead of saving over 2 billion US\$ on ineffective programs, the Bush administration ended up spending 786 million US\$ extra on these programs. This can hardly be seen as encouraging for a tool that was said to improve allocative efficiency by integrating performance and budgets.

Figure ..: Breakdown of 27 programs PARTed ineffective for FY2008

Categories	Number	Performance informed savings	
		Proposed by OMB ¹	Enacted by Congress ^{1,2}
Already eliminated in previous years	2	N/A	N/A
To be eliminated	8	- 408 (-100%)	- 3 (- 0.7%)
To be cut	8	- 1,619 (-12.6%)	+ 789 (+6%)
No cuts or increases	9	N/A	N/A
Total		- 2,027	+786

1. Millions US\$ compared to FY2007 funding

2. These are aggregated figures: some programs were cut while others received increases

Source: www.expectmore.gov

The latest off-spring was the Program Assessment Rating Tool which was 'arguably the most ambitious comprehensive effort to link performance and budgeting of recent times' [De Jong 2015: 18]. The coverage of federal programs was almost complete, but the merit no more than traditional budgeting. It leads Gilmour & Lewis to the sigh that it is significant that the PART scores have some impact, given the overwhelming importance of politics in making budgets [Gilmour & Lewis 2006; 750]. This applies even more to the utilization of PART

scores by legislative branch, which should have induced interest of Congress in program evaluation for results [Norcross & McKenzie 2007: 4]. In reality, largely as a result of Congress' disregard or even distrust of PART, budget authorization by Congress far from followed performance assessments [see Box]. Moreover the role PART examinations played in debates about funding in Congress seemed to be limited at best [Frisco and Stalebrink 2008: 11] In line with Wildavsky's appraisal of ZBB, PART resulted in only a few minor programs being terminated.

In the mid 2000 the Korean government introduced the Self-Assessment of the Budgetary Program [SABP], based on the Program Assessment Rating Tool with some modifications [OECD 2007]. Ineffective programs received automatic spending cuts. In contrast to the US these were cuts were often left intact by parliament. After a while however the gap between the self assessments by ministries and those by the Ministry of Finance and Strategy kept growing as did complaints about the bureaucratic burden. That is why Korea has since sought for ways to improve ownership on the part of the ministries.

3. Performance Budgeting

Although performance budgeting is a container concept that will mean 'different things to different people in different contexts' [Behn, 2003: 590], performance budgeting may be described best as the effort 'to strengthen the linkage between funding and results [outputs and outcomes], through the systematic use of formal performance information, with the objective of improving the allocative and technical efficiency of public expenditure' [Robinson 2007: xxvi].

First, a distinction can be made between a broad and a strict definition of performance budgeting:

'Broadly defined, a performance budget is any budget that presents information on what agencies have done or expect to do with the money provided to them. Strictly defined, a performance budget is only a budget that explicitly links each increment in resources to an increment in outputs or other results. The broad concept views [performance, FvN] budgeting in presentational terms, the strict version views it in terms of allocation' [Schick 2003: 101].

The two forms of performance budgeting may be considered as the poles of a continuum. The first may be labeled 'performance as allocation' and may be characterized by the direct and explicit allocation of resources on the basis of units of performance – formula performance budgeting – mainly outputs. In order to obtain 'the most effects for the least costs' a budgetary process should create, as Roy Meyers has argued, 'opportunities for comparing ratios of costs and effects: for one program from year to year, for all programs addressing one purpose, and across programs that address different purposes. Such

comparisons are viewed as a ‘conditio sine qua non’ by the adepts of formula performance budgeting [Meyers 1996: 178-179]. The second may be referred to as ‘performance by information’ in which inputs are only loosely coupled to outputs or outcomes. Performance information is competing with information from other sources [Schick 2014]. A third mode of performance budgeting may be distinguished – ‘presentational budgeting’ – which refers to the delivery of performance information – either inside or outside the budget – as background information for the purpose of accountability and dialogue with parliament and society, leading to three categories [OECD 2007: 21]⁴. Arguably, a fourth type might be described as a managerial performance approach which focuses on managerial impacts and changes in organizational behavior but may de-emphasize a strong budget linkage [Von Trapp 2014:2]. In general it should be noted that the line between performance budgeting and performance management is becoming increasingly blurred. In fact performance budgeting today is seen more and more as a subset of performance management rather than a separate process [Schick 2014: 3].

Taking the traditional line-item budget as point of reference, Pollitt & Bouckaert distinguish four stages trajectory of budgetary reform [Pollitt & Bouckaert, 2004: 70], although one may question if the last step – the switch to accrual based accounting – is a necessary condition for performance budgeting and – *visa versa* – if accrual budgeting does require performance budgeting.

1. The provision of performance information;
2. The adaptation of the budget format and addition of other documents;
3. The adaptation of the budget procedures and timetable;
4. The adaptation of the method of charging from cash-based to accrual based accounting⁵.

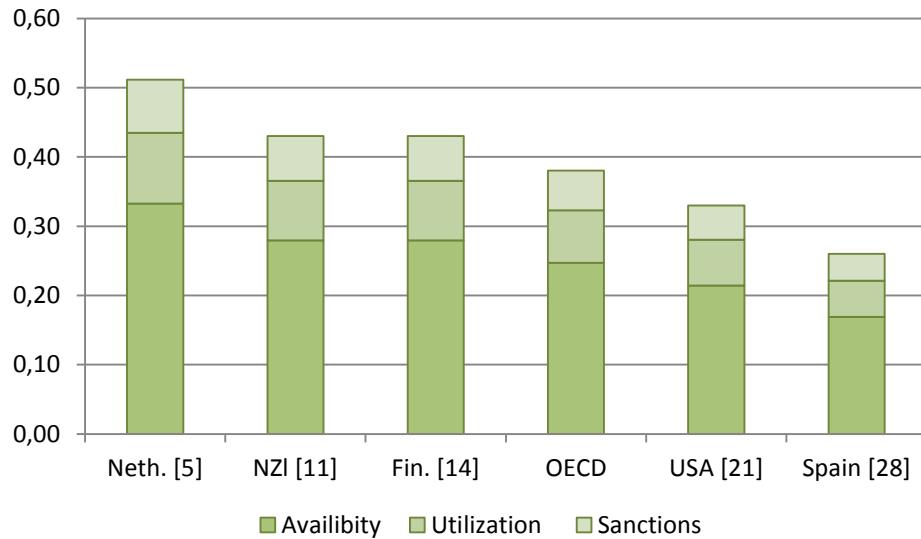
In this chapter we primarily focus on the first step – the availability and subsequently the utilization of performance information which are both assessed by the OECD on the basis of its 2011 Performance Budgeting Survey. The outcome is reported in *Governance at a Glance 2013* that, *inter alia*, contains a *Performance Budgeting Index* [PBI], which is composed of three components [OECD 2013: 175]:

1. Existence of performance information [65%];
2. Use of performance information in the budget negotiations [20%];
3. Consequences of not achieving the targets [15%].

4. A similar trichotomy is provided by Bouckaert and Halligan [2008], making a distinction between performance administration [direct link], management of performance [indirect link] and performance management [bench marking etcetera].
5. The capital budget, setting apart investments, may have the same effect as accrual budgeting. One may question if the relative share of investments in the budgets does not justify a completely new accounting system as it is less appropriate for programs geared to consumption.

The outcome may be illustrated in Figure 2 below that provides the PBI for a selected number of OECD-countries with Korea at the upper high end [0,66] and Portugal at the upper low end [0,18].

Figure 2: *Performance Budgeting Index for a Selected Number of OECD Countries*



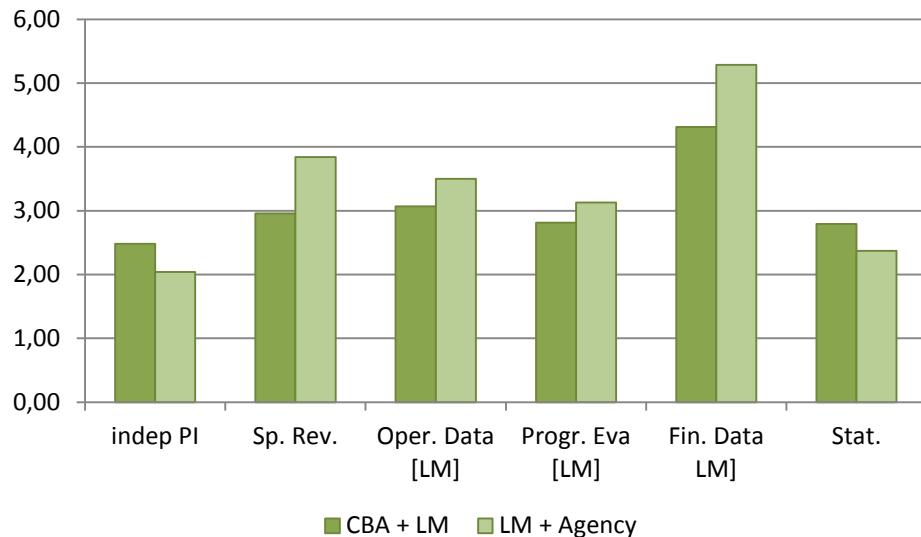
Source: OECD 2013 [ranking in between brackets]

The litmus test of performance budgeting is in the utilization of performance information for the allocation of resources or the efficiency of the provision of goods and services.

An assessment is provided by the OECD on the basis of its *2011 Performance Budgeting Survey*⁶. First, the question is raised how often non-financial information is used during the budget negotiations by the Central Budget Authority [CBA] and line ministries, respectively line ministries and agencies. Generally, non-financial information is used less frequently at the centralized level, i.e. the budget talks between CBA and line ministries [mean 3.07] than the decentralized level, i.e. the budget talks between line ministries and agencies [mean 3.36]. However, the difference is almost negligible [mean 3.07 vs 3.36]. Note that neither financial nor statistical data are specific for performance budgeting, which is geared to the provision of non-financial information.

6. The questions are renumbered after the survey. We refer to the numbering of the dataset that is posted on the OECD website.

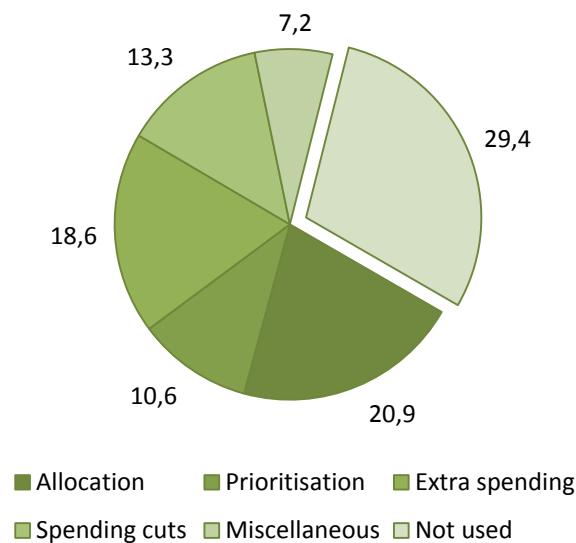
Figure 3: *The Frequency of Performance Utilization during Budget Negotiations per Category*



Source: OECD 2011 [Q7 + Q9]

The outcome indicates that non-financial information is used for a variety of reasons [Figure 4], notably the allocation of resources and spending cuts. However, about a third of the OECD-countries reports that they are not using non-financial information as part of the budget cycle for whatever reason.

Figure 4: *The Utilization of Performance Information in the OECD-Countries*



Source: OECD 2011 Performance Budgeting Database [Q 12]⁷.

7. The category 'allocation' refers to allocation for organizations [9,4] as well as programs [11,5]. Similarly 'extra spending' stands for increase spending existing programs [8,8] and the creation

The sovereign debt crisis

The sovereign debt crisis has arguably increased the priority of performance measurement and reinforced the link between performance measurement and financing [OECD, PBS, Q 34]. However, line ministries used performance information less – with the clear exception of the allocation for line ministries and agencies – during the negotiations about next year's budget as compared with the findings of the previous survey [Hawkesworth 2012, 33-34]⁸. In addition, more countries report that performance information is not used at all: from 10 to about 30 percent [OECD 2014, 76-77]. In fact we feature a massive return to the incremental mode of budgeting on the basis of inputs rather than outputs or outcomes [...]. Even in the case of New Zealand, which is generally considered as one, if not, the main driver of performance budgeting in the footsteps of the NPM-movement, the budget happens to be input-driven, although the authorization takes place on the basis of outputs. However, the information about outputs, although measurable, is often insufficient to enable the chief executives to purchase the appropriate inputs and to relate inputs to outputs [Posseth 2010: 138-139]. Consequently, next year's budget is largely shaped by last year's budget.

At the same time, a survey among senior executives in ten European countries [n = 4.402] reveals that the relevance of performance information has increased, at least to their opinion, in response to the consequences of the fiscal crisis [Hammerschmid et al. 2013]⁹. The explanation for these – seemingly contradictory – findings may be twofold. First, the utility of performance information may be still growing in most areas, but the constraints of performance information have become eminent in the field of public budgeting. It is nowadays not uncommon for practitioners to acknowledge that only about 20 or 30 percent of the national budget is applicable to meaningful and budgetary relevant performance indicators. Unfortunately, the COCOPS-report did not address the relevance and utility of performance information in the field of public budgeting. Second, none of the surveys happens to be conclusive as there is quite some variation underneath at the disaggregated level of the individual countries both in terms of ambition and intention as well as across sectors.

of new programs [9.9]. Spending cuts are composed of the reduction of spending [9.3] and the elimination of programs [4.0].

8. The previous survey took place in 2007. Note that both the wording and the categories has been changed, making the comparison debatable.
9. The data from COCOPS, a research project funded by the European Commission to examine the impact of New Public Management style reforms, provides additional insight [...] The COCOPS project [Coordinating for Cohesion in the Public Sector of the Future] seeks to comparatively and quantitatively assess the impact of New Public Management-style reforms in European countries, drawing on a team of European public administration scholars from 11 universities in 10 countries. [www.cocops.eu/about-cocops].

A detailed analysis of three European countries – Finland, the Netherlands and Spain – indicates that most countries struggle with:

- the formulation of goals and indicators;
- the link between appropriations and outputs and/or outcomes;
- the causal relation between outputs and outcomes [Van Nispen & Posseth 2009: 20].

In addition, the utilization of performance budgeting heavily relies on the political setting and administrative capacity as is illustrated by the case of Poland that gradually built a sophisticated and detailed system of government-wide performance budgeting. Because of vanishing political support, limited and scattered capacity at the Ministry of Finance, non-financial information gathered largely remained unused for budgetary purposes [Kąsek & Webber 2009; Hardt & De Jong 2011, OECD 2013].

Not surprisingly, the added value of non-financial information for the allocation of resources and efficiency in the public sector happens to be low. There is hardly any evidence that non-financial information is used for reallocation of scarce resources during the preparation of the budget in the public sector [Frisco & Stalebrink 2008: 11; De Vries & Bestebreur 2010: 237; OECD 2007: 67, De Jong et al 2013: 14-15]. Insofar performance information is being used to enhance efficiency, this is more likely to occur in the implementation of the budget and by agency managers rather than politicians [Joyce 2003: 36-37, Hammerschmid et al 2013: 5, Von Trapp 2014: 4]. Furthermore, one may question the one-size-fits-all template of performance budgeting, which simply ignores the uniqueness of programs [Radin 2006: 50; Van Nispen & Posseth 2009: 20]. The requirement of homogeneous goods and services is often not met in the public sector [Van der Kar 1981: 106-112; Bestebreur & Klaassen 2003: 21]. In fact, only a small portion [say less than 40 percent] of the budget consists of homogeneous goods and services. Consequently, the provision of non-financial information has become compliance focused and failed to deliver insight in the effectiveness and efficiency [OECD 2015: 48]. Rather, these insights would be gained best from in-depth program evaluations.

A more differentiated approach is needed to do justice to the responsibility of the minister who is in charge of the policy under the scrutiny as well as [the variety of] the characteristics of goods and services that are delivered by government, cumulating – combined together – in four broad categories with ‘performance as allocation’ in the upper left corner and ‘performance as information’ in the lower left corner. This framework offers a more realistic approach to integrating financial and results accountability in the public sector. As such it can be a helpful tool for identifying opportunistic use of performance information such as dubious claims to effective spending following attainment of policy goals or legitimizing claims for extra budget using measurable policy outcomes. Such a diversified approach formed the core of the conceptual model of the Accountable Budgeting reform that was introduced in the Netherlands from 2012. This reform addressed some of the persistent shortcomings of the ambitious PB system attempted during preceding decade.

Figure 5: Diversified Approach PB depending on Policy Characteristics

Link funding and result Influence government	Strong	Weak
High	PBB/PIB Outputs and Outcomes	PM disconnected from budget
Low	PBB/PIB Outputs only	PB Presentational use only

Source: De Jong in OECD 2015: 48

Many of the disappointing results of PB with regard to its potential for allocative efficiency may not come as much of a surprise as we simply lack a criterion to make a choice between extra spending for 'guns versus butter'. Besides, the utilization of performance information depends on the level of aggregation:

'Performance measurement can help public officials to make budget allocations. At the macro level, however, the apportionment of tax monies is a political decision made by political officials ... Thus, political priorities – not agency performance – drive macro budgetary choices' [Behn, 2003:590].

At the macro level, performance information is simply insufficient for budgeting with an eye on improving cost-effectiveness. What should parliament decide if targets are not met: allocate more or less money?¹⁰ Additional information is needed about cost-effectiveness to make a decision [Behn, 2003]. At the micro level [management], performance information may be used to improve efficiency, dividing outcomes by inputs [allocative efficiency] or outputs by inputs [technical efficiency]. This performance information use at the macro-level remains largely unobservable by large scale quantitative research. Therefore the available evidence is largely anecdotal and revealed mostly by qualitative case studies [De Jong 2015: 14].

The high expectations regarding the use of performance information in the budget cycle should be scaled down, as there is no guarantee whatsoever that non-financial information – whether or not operational and relevant – will be used for the allocation of scarce resources or the improvement of efficiency of the delivery of goods and services. Performance information is just one piece of information that has to compete with information from other sources: it is only one of the many variables that are taken into account when it comes to a decision. To wrap-up: the impact of performance budgeting is still unclear, despite

10. The allocation of scarce resources is often subject of what In 't Veld has called the Law of Policy Accumulation, i.e. policy makers tend to respond in the same way regardless the effectiveness or ineffectiveness of an instrument, namely by calling for 'more of the same' [In 't Veld 1998].

claims of the contrary. There is hardly any evidence that the allocation of resources has been improved due to the availability of performance information. The same applies for effectiveness and efficiency, linking inputs [expenditures] to outcomes, respectively outputs¹¹. Based on the available evidence, the added value of adopting performance budgeting are instead more likely to be found in increased government transparency. In addition some other positive effects have been attributed to performance budgeting that are mostly not observable in the budget itself and as such can be attributed more broadly to performance management. These are: alignment of goals, supporting a results oriented culture, policy innovations and better enabling ex-post policy evaluation [Poster 2009: 7-8; Schick 2014, Speklé & Verbeeten 2014; Van Dooren 2011: 429].

4. What is at the Horizon Beyond Performance Budgeting?

The reduction of the expectations of the potential value of performance budgeting is raising the question what will be at the horizon beyond performance budgeting. It could be argued that the NPM movement and consequently the pursuit of performance budgeting is 'intellectually dead, an orthodoxy now played out and plagued by evidence of adverse by-product effects'. The future is in 'digital era governance', focusing on the reintegration of services, holistic and 'joined-up' approaches to policy-making, and the extensive digitalization of administrative operations which, we would like to add, may incidentally promote efficiency/performance of the public sector [Dunleavy et al. 2006]¹². We do not contest that ICT will play a major role in governance, also in public budgeting, but we believe that the pursuit of efficiency is still alive and kicking. The NPM movement may have sunk below the surface, but is not dead¹³. Performance budgeting is sometimes cynically dubbed a 'zombie reform' for this reason: no matter how often it is buried, the call for it keeps haunting us and brings it back alive time and again. The fact that the demand for non-financial information remains high may be illustrated by a statement of Peter Orszag, the director of the Office of Management and Budget during the first Obama administration:

*'I am trying to put more emphasis on evidence-based policy decisions ...
Wherever possible, we should design new initiatives to build rigorous data*

11. A similar conclusion is drawn by De Jancer Julnes regarding the utilization of performance information not directly related to the budget. Following Weiss she points at non-instrumental modes of utilization [De Jancer Jules 2008]. In fact, the utilization of performance information has many faces [Haty 2008].
12. The shift away from performance budgeting towards policy evaluation seems to be part of a broader development that the impact of NPM-movement of which performance budgeting is an important component is fading away/has come to an end [Dunleavy 2005].
13. A similar conclusion is drawn by De Vries where he states, correctly, that NPM is focused on efficiency, not effectiveness [De Vries 2010].

about what works and then act on evidence that emerges – expanding the approaches that work best, fine-tuning the ones that get mixed results, and shutting down those that are failing' [Orszag 2009].

The pursuit of evidence-based budgeting by the Obama administration, being dismissed by John Mikesell as a 'budgetary wrinkle' [Mikesell 2014: 287], may be considered as an effort to feed the budget talks with evidence from other sources, such as policy reviews and, in times of austerity, spending reviews¹⁴, which may be considered as an 'extender' of before-mentioned continuum of 'performance as allocation' and 'performance as information'.

The impact of the pursuit of evidence-based budgeting may constitute a major leap forward if 'the Obama administration actually delivers on the promise by the President and his budget director to fund programs that have strong evidence of success and to end programs that fail to produce impacts'. However, the fans of evidence-based decisions should follow one round of the annual congressional appropriations process and critically assess how many decisions are based on any appeal to evidence before getting too excited [Haskins 2009: 50] as has been illustrated earlier by the utilization of the PART-scores.

4.1 The Call for Evidence-Based Budgetary Policy¹⁵

The call for more evidence-based policy is frequently attributed to the Blair cabinet that launched a large-scale effort to modernize government shortly after it took office. The government has to be:

'... willing constantly to re-evaluate what it is doing so as to produce policies that really deal with problems; that are forward-looking and shaped by the evidence rather than a response to short-term pressures; that tackle causes not symptoms; that are measured by results rather than activity... policy making must also be a process of continuous learning and improvement' [Blair and Cunningham 1999: 15].

Why this 'utility turn' in practice as well as research [Solesbury 2001: 4]? After all, evidence-based policy does not constitute a completely novel concept, although its absence and constraints are mainly lamented in practice [Banks 2009].

At face value, not much of it should be the focus on 'what works'. A number of qualifications should be made. First, what works should not be confused with what is desirable or preferable. The availability of evidence does not imply that the government will act on the

14. Agencies should employ program evaluation to assess performance, rigorously conducted as part of the budget development [Mikesell 2014: 288-289].

15. The section on the pursuit of evidence-based policy making is taken from Van Nispen 2015.

basis of proof and, if so, that an evidence-based policy will lead to goal-attainment. After all, evidence is only one of the many variables that play a role in the design or revision of a policy. At best we can talk about evidence-*informed* policy, although the cut-off line is unclear, making the use of knowledge speculative. Second, the relation between evidence and policy is not linear. In addition, the evidence is highly context specific [Young and Mendizabal 2009: 1]. What works in one setting may not work in another. The external validity is relatively low.

The body of literature on evidence-based policy indicates that what counts as evidence is not without discussion. First, scientific information is frequently challenged by other schools of thought and bodies of expertise. Second, governments often use a broader definition of evidence than the academic world [Davis 2004: 24]. In addition to scientific knowledge – information that has been put to a test – governments often refer to political judgment and practical wisdom, each lens having its distinctive protocol on what counts as ‘evidence’ [Head 2008: 7]. It goes beyond saying that scientific knowledge is often contested by non-scientific information from other ‘knowledge reservoirs’ [Bekkers 2014]. The notion of ‘evidence-based’ policy stands, as such, in contrast to ‘opinion-based’ policy, which relies heavily on either the selective use of evidence ... or on the untested views of individuals or groups, often inspired by ideological stand points, prejudices or speculative conjecture’ [Davies 2004: 3].

The search for evidence strongly resonates in the current debate about the consequences of the sovereign debt crisis as articulated by the Australian Prime Minister Kevin Rudd when he called for:

‘... a robust, evidence-based policy making process. Policy design and policy evaluation should be driven by analysis of all the available options, and not by ideology... We’re interested in facts, not fads’ [Rudd 2008].

In the summer of 2009, the Australian government organized a large-scale roundtable on strengthening evidence-based policy. The focus was not on budgetary affairs, but the message was clear:

‘Undoubtedly, evidence has influenced policy, often for the good. However, practical policy choice is determined by interests, political preferences and power, as well as by evidence. Strident calls for more ‘evidence-based policy’ can reflect a political naiveté; or can hide a claim that politics should be run by ‘experts’; or can be a cover for the role of interests’ [Pincus 2009: 281]

In addition, he points at the moral aspect of the pursuit of utility, referring to example of the opposite: slavery in the British empire was not abolished because it did not work, but because it was considered morally abhorrent [Pincus 288].

A more evidence-based policy could, *inter alia*, avoid that a Type I, Type II or Type III error is made and, as such, may contribute to the reduction of public expenditures [ABS 2010: 2]. In

order to generate ‘value for money’ – effectiveness and efficiency – interventions should be tested in advance. However, a policy that is proven to have effect in a clinical trial experimental setting is not necessarily effective in reality. Therefore, many scholars and practitioners remain skeptical about the merits of evidence-based policy making [Van Twist et al. 2014].

4.2 Budget Reviews

The pursuit of a more evidence-based budget policy induced a renewed interest in program evaluation as a source of performance information. In an effort to strengthen the *ex post* evaluation, the Dutch government launched/institutionalized a rotating system of policy reviews that should cover the whole budget in a period of seven years

Policy Reviews

In the early 90 the Dutch government established a ‘system of involuntary self-assessment’ in order to provide better information on relevance, effectiveness, efficiency and cost of government programs to coalition governments at the time of budget formulation [Shaw 2014: 81]. A policy review [‘beleidsdoorlichting’] is primarily focused on the analysis and support of existing policies, including the policy effects. The final report should include a synthesis of the available program evaluations regarding the effects of the policy under scrutiny. Contrary to program evaluations, no additional fieldwork is done to balance the – positive and negative – effects. Program evaluations may lead to conclusions in terms of goal attainment, effectiveness and efficiency, but the generation of policy alternatives is left for what is called Inter-ministerial Policy Research [Interdepartementale Beleidsonderzoeken (IBO)]. Besides, IBOs usually have a broader scope, generally looking at [a specific aspect of] a number of interrelated policies. A spending review may be considered as an IBO geared to the generation of potential savings¹⁶. The various modes of policy analysis and evaluation may be summarized as in the Table 7, which articulates the main similarities and differences.

16. The difference between policy reviews and spending reviews is diminishing as policy reviews should contain a minus 20% alternative since January 1, 2015.

Figure 6: *Modes of Policy Analysis and Evaluation*

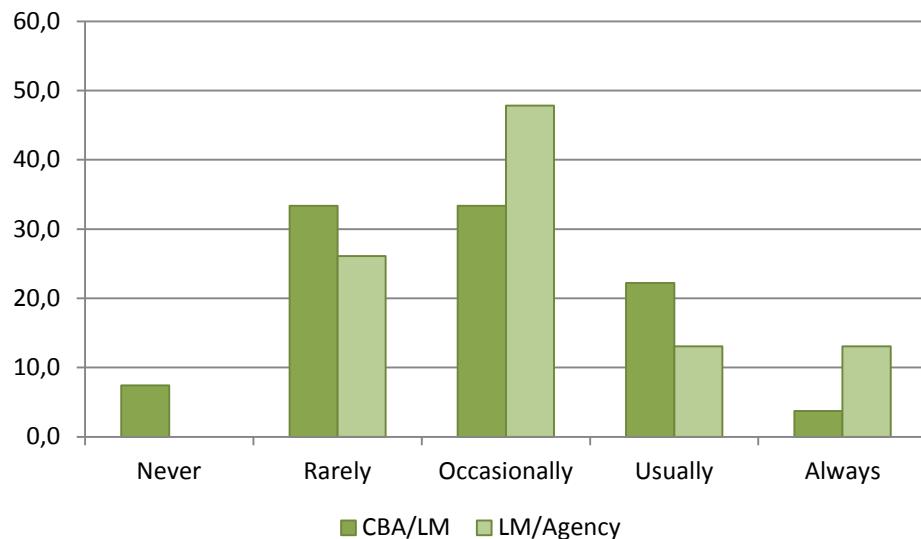
	Policy Analysis ¹	Program Evaluation ¹	Inter-ministerial Policy Research	Spending Review
Principal	Spending department	Spending department	Joint effort	Cabinet Committee
Role MoF	Programming, Guidelines	None	Selection, Guidelines ²	Selection, Guidelines ²
Aim	Arguments/information	Impact assessment	Policy alternatives	Potential savings
Unit of analysis	Program	Program	Policy	Policy
Focus	Policy relevance	Goal-attainment, effectiveness	Alignment, streamlining	Spending cuts
Decision			Cabinet	Cabinet ³
Impact budget	Low	Low	Low	Potentially high ⁴

1. The policy reviews and program evaluations are subject of the *Regulation on Periodic Evaluations*.
2. Representatives of the MoF participate in the working groups.
3. The publication of the report is accompanied by a 'cabinet view'.
4. The utilization of the potential savings is depending on the need for consolidation.

Source: MvF 2004; Schoch & Broeder 2013; Van Nispen 2015.

In contrast to IBOs and spending reviews, ownership is left in the hands of the line ministries, indicating a less centralized, more tailor-made mode of governance than previous efforts to establish performance budgeting, which were applied across the board to all line items, regardless of the characteristics of the output of the government. The role of the minister of finance is basically limited to the formulation of the terms of references and the provision of guidance. In addition, the budget rules contain a rolling plan to ensure that all programs will be reviewed in a period of between four and seven years. However, only 50% of the program reviews are actually carried out, due to a lack of priority and capacity. The number of policy reviews has increased substantially recently due to closer monitoring by the Minister of Finance, who tables the issue of policy reviews twice a year at the cabinet meeting.

Figure 7: *The Utilization of Program Evaluation in Budget Negotiations [OECD Average]*



Source: OECD 2011 [Q7 + Q9]

Evaluations conducted as part of a spending review, run by the CBA, are used more frequently in budget negotiations than performance evaluations conducted by the line ministries [OECD 2015: 7].

Spending Reviews¹⁷

In times of austerity, across-the-board cuts and one-off measure are no longer adequate to reduce the budget deficit and public debt. A more evidence-based fiscal policy is needed for fiscal consolidation.

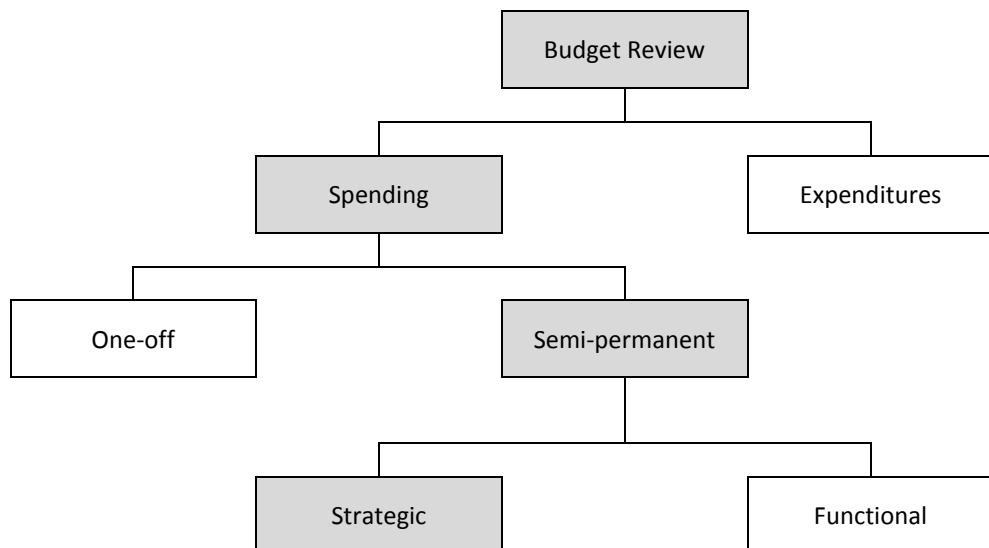
The guidelines for the spending reviews breathe the spirit of integrated policy analysis [Dunn 2004, 2011] or, more precisely, policy evaluation. On the one hand, spending reviews are looking backwards as they are geared to an assessment of timeliness, effectiveness and/or efficiency. On the other hand, spending reviews are looking forwards as they are supposed to generate better options for the future and may be characterized as utilization-focused evaluation [Patton 1996]. The main aim of program evaluations is to improve the effectiveness of programs or the efficiency of expenditures. If there is reallocation, it is

17. One of the first experiments with spending reviews is the so-called Reconsideration of Public Expenditures [Heroverweging van overheidsuitgaven, HO], a large scale-effort of the Dutch government to cut public spending in order to reduce the sky-high budget deficit in the 80s. The interest in spending reviews gradually faded away in the early 90s, when the economy recovered, but the spending reviews made a revival in 2010 due to the consequences of the sovereign debt crisis.

mostly within programs, and if there are savings, they typically are ploughed back into the same agencies or programs. It leads Allen Schick to the cynical, but realistic conclusion the 'program evaluation ... comfortably coexists with incremental spending behavior'. However, program evaluations may not suffice for countries that face austerity. They may need bolder techniques that promote fiscal consolidation and stabilize public finance [Schick 2014: 17-18], i.e. spending reviews [Robinson 2013; Van Nispen 2015].

A recent survey of the OECD indicated that 16 out of 32 OECD countries experimented with budget reviews as a tool to generate smart or targeted cuts to deal with the consequences of the sovereign debt crisis [OECD 2012: 37]. A subtle, but crucial distinction should be made between various modes of budget review. Contrary to expenditure reviews, spending reviews are looking for potential savings in relation to the baseline [Robinson 2013] and, as such, compensate for '... the fundamental asymmetry of the regular budget process which is capable of producing good options for new spending, but not of producing good options for new savings' [OECD 2011: 81]. Consequently, they do not take current funding as given, but also examine the consequences of alternative [read: lower] levels of funding [Kraan 2007: 21; OECD 2012: 115].

Figure 8: *A Classification of Budget Reviews*



Source: OECD 2012

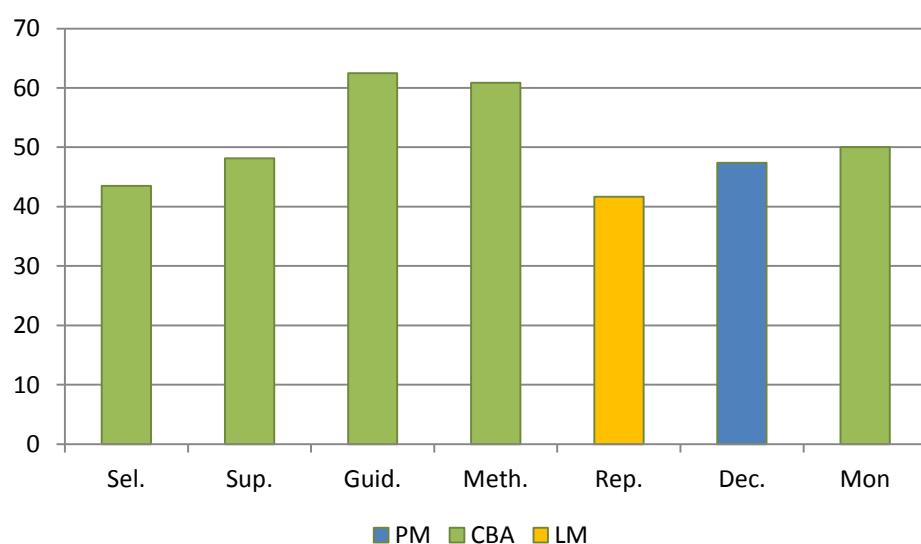
The classification of budget reviews may be further refined by making a distinction between one-off efforts and semi-permanent efforts to generate smart cuts. The spending reviews in both Italy and Spain are mainly due to the rules of the Stability and Growth Pact, rather than the pursuit of a more evidence based fiscal policy.

The appraisal of proposals for new or additional spending does *not* belong to spending reviews [Robinson 2013: 4-5]. Consequently, the Australian, British and Irish efforts cannot

be considered spending reviews, but expenditure reviews¹⁸. In the mid 1970s the Australian government established the so-called Expenditure Review Committee [ERC], which is at the centre of the preparation of next year's budget¹⁹. However, its activities may be characterized better as strategic reviews, which do not require the development of mandatory saving options, rather than spending reviews [OECD 2012: 111]. In recent years though Australia has carried out a comprehensive *expenditure* review over three budget cycles [2008-10], which has all the characteristics of a comprehensive *spending* review [Robinson 2013: 11].

The institutional setting of spending reviews is more or less similar. They may be characterized by two institutional variables [Kraan 2010: 14; OECD 2010: 41]. First coordination is primarily left in the hands of the Minister of Finance, referred to as the Central Budget Authority [CBA], rather than the Prime Minister [PM] or the line minister [LM] in charge of the policy under review. Only in the case of decision making about the potential savings that are generated by the spending reviews, the CBA comes second to the Prime Minister [47.4 vs 31.6 percent] and the Line Ministries happen to be primarily in charge of the drafting of the report [41.7 vs 37.5 percent].

Figure 9: *A Break-Down of the Main Responsibilities of Spending Reviews*



Source: 2011 OECD Performance Budgeting Survey [Q 25].

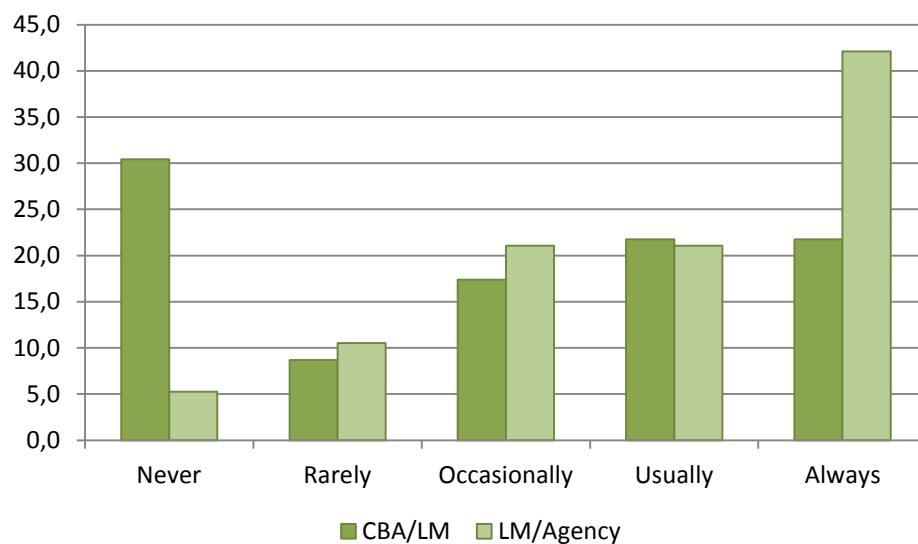
18. The Irish spending review – Comprehensive Reviews of Expenditure – is modeled on the British example and constitutes, as such, the preparation of a multi-annual budget which sets three year ceilings on ministry expenditures [Robinson 2013: 11, fn. 6].

19. The ERC has overseen in earlier times two periods of intense spending review activity focused on delivering fiscal consolidation. The first in the late 1970s, and the second in the mid-1980s [Robinson 2013: 10].

A second characteristic of spending reviews is that the outcome is primarily adopted as part of the budget cycle [Figure 8], although many countries have indicated that the utilization of the potential savings may be attributed to more than one single category. However, even then the budget cycle serves as an important, if not most important, platform for decision making about the potential savings generated by the spending reviews. After all, the budget comes in the shape of a law and the decision about 'who gets what, when, how' belongs to core of politics [Lasswell 1936]. As Aaron Wildavsky has taught, the allocation of resources is a political rather than an economic process.

Generally, outcome of spending reviews is used less frequently at the centralized level – CBA/LM – than the decentralized level – LM/agencies – although the mean – 2.96 vs. 3.83. – is not that far apart.

Figure 10: The Utilization of Spending Reviews in Budget Negotiations



Source: OECD 2011 [Q7 + Q9]

A comparison of two countries with a long-standing tradition of spending reviews – Canada and the Netherlands – indicates that the added value should not be overestimated, even if the savings are measured as a share on 'in-scope' spending [Van Nispen 2015; Shaw 2015]. The utilization of the results of expenditure reviews in Anglo-Saxon countries – Canada and the UK – is slightly doing better due to the close link of the spending reviews with the budget cycle. However, the savings do not exceed 15 percent of 'in scope' spending [Shaw 2015: 14].

5. Conclusion

In this chapter we looked at the relationship between policy analysis and public budgeting. Taking the PPBS as a point of departure, we addressed the question if we made any progress since the first efforts to turn the traditional incremental budgeting into a more evidence-based fiscal policy. More specifically, one may question if policy analysts have succeeded to put non-financial information to the negotiation table and if non-financial information is taken seriously or merely used as additional background information.

The pursuit of a more evidence-based fiscal policy got a boost by the NPM-movement that hit the world the last few decades. One of the off-springs was a revival of performance budgeting, i.e. the provision of non-financial information for the allocation of scarce resources and efficiency in the public sector. Now that the NPM-movement seems to be over the hill, although not completely, one may question to what extent the decline of the NPM-movement has affected the pursuit of performance budgeting, notably as 'governments cannot budget for results unless they manage for results' [Schick 2013: 3]²⁰.

The current situation is somewhat ambiguous. As mentioned previously most OECD-countries that experimented with performance budgeting struggle with the formulation of goals and indicators, the quality of non-financial information and the link between inputs and outputs, respectively outcomes. Not surprisingly, the impact of performance information is modest so far, even in the case of homogeneous goods and services. Like the results of social research [Weiss 1979], the utilization of non-financial information is largely eclectic. It is primarily used as additional background information or as political ammunition if appropriate in the budget negotiations for both extra spending and spending cuts and simply ignored if not. With few exceptions, there is hardly any evidence that performance information has induced either re-allocation of money or efficiency in the public sector through the national budgeting process. As argued, agency and program management are probably better places to look for success of this reform.

Second, in many countries we feature a retreat of performance budgeting as the constraints of the 'one fits all' approach of performance budgeting has become clear. The story of PART is illustrative in that regard. The coverage of 'the most ambitious comprehensive effort to link performance and budgeting of recent times' was almost complete, but the impact on funding largely negligible. However, that will not say that the demand for non-financial information has completely dried. To the contrary, the global financial crisis has induced the relevance of performance information in general and, more specifically, for budgeting [OECD 2011; COCOPS 2013], although that is not translated in an increase in the utilization of non-financial information. Increasingly, non-financial information is generated, if relevant, by other means than the budget, such as program evaluations and in times of austerity, spending reviews. However, one may expect that the interest in [the results of] spending

20. It should be noted that performance budgeting used the NPM-movement as a vehicle, but has dynamics of its own.

reviews will fade away as soon as the economy recovers and the need for the generation of potential savings disappears.

Finally, what is at the horizon beyond performance budgeting? The call for a more evidence-based fiscal policy clearly deserves the benefit of the doubt, but the initial enthusiasm has made place for a growing skepticism, fueled by the relatively low impact of performance budgeting across the world. The outcome is a hybrid mode of public budgeting, a mix of inputs and outputs, which may be characterized at best as performance-informed budgeting. It should be noted though that by far the largest part of the budget is still allocated on the basis of inputs rather than outputs or even outcomes. Like its predecessors – PPBS and ZBB – performance budgeting did not manage to break the budgetary routines, i.e. to replace incremental budgeting by a configuration of performance budgeting [Schick 2013: 7]. Unfortunately, we have to conclude that the budget is still largely decided by power rather than by truth, i.e. evidence that something works. This should not come as a too big of a surprise as Wildavsky also rightly noted in one of his seminal work on the budgetary process that it would take a totalitarian regime to fully embrace a normative theory of budgeting, for this would imply the end of politics [Wildavsky 1992: 429].

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Annex 1: *The Stages of Budgetary Reform in the United States*²¹

Date	Reform	Description
1921	Budget and Accounting Act of 1921	Created the executive budget and the Bureau of the Budget [BOB]; consistent with the control orientation for budgeting
1937	Brownlow Committee	Created the Executive Office of the President [EOP] with expanded White House staff, including moving BOB from the Department of the Treasury to EOP.
1940s-1950s	Hoover Commissions	Focused on 'performance budgeting' consisting of establishing closer relationships between resources [inputs] and activities [outputs].
1960	Planning Programming Budgeting System [PPBS]	An effort to more consciously connect resources with results, first in the Department of Defense [successfully] and then with less success in civilian agencies.
1970	Management by Objectives [MBO]	Nixon-era strategic planning efforts
1970s	Zero-Based Budgeting [ZBB]	Carter administrations' attempt to more systematically review existing programs in the budget process.
1990s	Government Performance and Result Act of 1993 [GPRA]	The efforts of the Clinton administration improve service delivery by requiring that federal managers plan for meeting program objectives and providing them with information about program results and service quality
2003-2008	Program Assessment Rating Tool [PART]	The method used by the Bush administration to systematically evaluate federal programs.
2010-2016	GPRA Modernization Act of 2010	In an attempt to encourage performance information use, the Obama Administration mandated federal agencies to engage in quarterly data driven reviews of performance information for assessing priority objectives.

Source: Joyce 2003: 9 [adapted]; Moynihan & Lavernu 2011.

21. A number of these initiatives refer more to *management* reform than to *budget* reform.