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# IPMN Symposium on Performance Budgeting and the Politics of Reform

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# **IPMN SYMPOSIUM ON PERFORMANCE BUDGETING AND THE POLITICS OF REFORM**

L. R. Jones

## **ABSTRACT**

*Various systems to integrate performance measurement into budgeting are applied in nations around the world. Governments at all levels have embarked on a journey into performance measurement and management. Performance budgeting, and the application of performance analysis in budgeting, is a topic of a considerable discourse in the public management community. This symposium provides dialogue and comment on efforts to integrate performance evaluation into the executive budget process at the federal government level in the United States of America under the administration of President George W. Bush. The experience of other nations also is addressed.*

## **INTRODUCTION**

The dialogue that appears in this article resulted from an International Public Management Network newsletter item (Jones, 2002) about the introduction of performance review into the U.S. federal budget process by the administration of President George W. Bush. The symposium transpired spontaneously as members of IPMN reacted to the newsletter essay and contributions on the newsletter topic as they appeared on the IPMN listserver. What resulted was a dialogue on performance budgeting not confined specifically to U.S. budgeting but related generally to performance budgeting, with emphasis on politics and budgeting. The dialogue is rendered in the following section as nearly as possible in the order in which it took place, edited only slightly, e.g., to insert citations, to correct spelling errors and to order the flow of the exchange -- necessary because some messages were received simultaneously. After the dialogue some observations on what was said is offered and more recent information on the actions of the Bush administration is provided. The newsletter item that started the dialogue in February 2002 follows.

## **IPMN NEWSLETTER 2 2002: AN UPDATE ON BUDGET REFORM IN THE U.S.**

The most recent reform introduced in U. S. federal budgeting is that announced by President George W. Bush and his Office of Management and Budget (OMB) in the FY 2003 President's Budget delivered to Congress last week. This budget has introduced "performance-based budgeting" to link funding to performance measures and accomplishments for federal departments and agencies.

In initiating performance-based budgeting for the federal government President Bush is attempting to bring the U.S. into line with many of the more progressive national practices around the world. Other nations including New Zealand, Australia, Canada, Switzerland and the United Kingdom have employed performance and output or results-oriented budgeting practices over the past decade or more. Furthermore, in testimony before the Senate Armed Services Committee on February 5, 2002 OMB Director Mitchell Daniels noted that the reform interests of the Bush administration were not limited to performance budgeting. While stressing the importance in evaluating programs on the basis of achievements, Mr. Daniels also expressed approval with members of the committee who asked him about other budget reforms.

The first issue addressed was whether there was a need for new budget "caps" or spending ceilings given that the caps previously enacted in the early 1990s and re-endorsed in the Balance Budget Act of 1997 had expired. Also mentioned was the fact that Congress often exceeded the caps even when they were in force. Mr. Daniels agreed with some members of the committee that new caps should be enacted to control congressional proclivities to spend.

A second and related issue was whether new spending caps should include a ceiling for national defense spending. Mr. Daniels indicated the strong preference of the administration against a cap on national defense appropriations in a period when the nation was at war with the forces of terrorism around the globe. In rejecting the idea of a cap for defense spending, the testimony of Mr. Daniels conformed to the views expressed by Chairman of the Federal Reserve Bank Alan Greenspan in testimony to Congress in the same week. (Greenspan, 2002) When asked directly by members of the House Budget Committee whether caps should be reinstated for the discretionary (non-entitlement) portion of the federal budget Greenspan responded that he believed new caps were needed in all areas but national defense. Both Greenspan and Daniels reflected the priorities of the Bush administration in placing the war on terrorism as the highest priority in policy and budgeting.

In response to questions from congressional members, Director Daniels also expressed the interest of the administrations in exploring biennial budgeting and budgeting by results contracting. While the biennial budget initiative was not an element of the President's 2003 budget, the fact that the Bush administration expressed interest in biennial budgeting appeared to open the door to discussion of even more ambitious reform, e.g., with multi-year budgets similar to the types of budget processes in use in the United Kingdom, where budgets are enacted for a three-year period and reviewed biennially, and in Australia, where three year "running cost" budgets had been used in the 1990s with some success. Australia has, as of this writing, shifted to an even longer five-year cycle of budget enactment and review. Budget critics have long argued the inefficiency of the annual budget cycle (see McCaffery and Jones, 2001: 87-90).

Annual budgeting satisfies congressional preferences for a cycle that provides maximum opportunity to reward constituents with spending largess. In fact, as political scientists have observed for decades, virtually all-congressional politics is local politics, i.e., driven by the need to satisfy the special interests of members' districts or states. And while this opportunity provides the benefits of democratic representation and responsiveness, it does not lend itself well to expenditure control, fiscal discipline or efficiency in either spending or program performance. Rather, annual spending

encourages the behavior well known to both budget officials and academics, i.e., spend it or lose it. Further, because the problems that governments face are never constrained to periods of one year, spending demand is, given the nature of service demand, always multi-year in character. The annual budget cycle produces all kinds of perversities and strategic misrepresentation in budgeting. (Jones and Euske, 1991) Perhaps the best recognized is the end of year spend-out phenomenon where real spending priorities often are ignored in the rush to spend or obligate every dollar available, regardless of whether the items purchased or the services provided are really needed.

Unfortunately, the annual spending cycle encourages exactly the types of behavior that Congress, the Executive and various audit agencies of the federal government, including the General Accounting Office, indicate is abhorrent. The incentives implicit in the spend it or lose it approach to budgeting push otherwise prudent budget executors to the ink of Anti-Deficiency Act violations including spending for things not authorized or appropriated by Congress, or spending from budget accounts dedicated to one purpose for other purposes not authorized by law. And the obvious incentive from annual spend-outs is to over spend rather than under-spend if what is not expended is likely to be lost in the next budget.

For these and other reasons nations including those mentioned above have moved to multi-year budget appropriations and execution, providing programs the authority to over or under spend in any one particular year so long as spending conforms to totals appropriated for the longer term period of years. This provides greater opportunity for budget and program managers to execute budgets more efficiently, with greater attention to management "steering" to achieve desired results and increased flexibility to adjust short and medium spending plans to fit the demands of efficient budget execution.

Related to multi-year budgeting for results is the issue of contracting for results. Contracts for results written into budgets in other nations have included agreements between legislative bodies and program agencies to produce a set amount of outputs or outcomes (e.g., in New Zealand) or contracts within the Executive Branch between control agencies such as OMB and departments and agencies. In the UK the Department of the Treasury engages in such contracting under the oversight of the Prime Minister and Cabinet and Parliament. However, officials of the Treasury hold the real work of holding service providing agencies to their contracts. There are other examples of contracting in budgeting in Australia, Switzerland, Sweden, Denmark and elsewhere.

It is too early to attempt to evaluate the experience of the Bush administration with performance budgeting, but in several years there will be opportunity to assess the efforts and success of OMB with this approach, and that of Congress and the Executive in continued implementation of the Government Performance and Results Act.

Larry Jones

Wagner Professor of Public Management  
Graduate School of Business and Public Policy  
The Naval Postgraduate School

## DIALOGUE IN RESPONSE TO THE IPMN NEWSLETTER

1. Thanks for your very helpful update on budget reform in the US. All I would add is that you could refer readers to an article by Richard W. Stevenson in last Sunday's (Feb.2) New York Times entitled, "Bush Budget Links Dollars to Deeds with New Ratings." (Stevenson, 2002) You could get it on their web site, or incorporate it into another email.

Sandy Borins  
University of Toronto

2. In reply to Larry Jones' report on the President's 2003 budget proposal in the U.S., let me suggest that Larry's interpretation sounds official and authoritative, but some of the points he makes are wildly controversial, and should be a subject of debate, and perhaps not accepted as fact until further exploration. I am particular unhappy with the suggestion that the president's budget proposal represents any kind of budget reform agenda whatsoever. What it seems to represent is a political strategy, in which the Republicans recreate deficits by reducing taxes, (deficits exaggerated by the downturn in the economy) and increases in spending due to the terrorist attack in New York and additional defense spending. The resulting pressure to continue to cut domestic non-defense spending is what they sought. The so-called evaluation of departments--not even programs, but whole cabinet level departments, on a three dot system, red, yellow and green, in which nearly all government agencies flunk, is nothing like performance measurement, and has nothing to do with the years of effort in performance measurement that have occurred under the GPRA legislation. The criteria used were things like whether the department was doing enough contracting with the private sector--where enough seems to have been defined as simply more. There were no standards of the appropriate level of contracting out, and whether some agencies had in fact exceeded those standards. The underlying theme seemed to be, private sector good, public sector bad. Enriching the private sector through government contracts good, very, very well. I don't see this as much of a reform, actually I see it as a step backwards, a major step backwards. Not only is it not performance based, or program based, it is just flimsy justification for predetermined budget cuts, ratcheting down the size of the public sector. Maybe a good idea, but not a budget reform, not a process reform, a political agenda only.

Also, by linking any mention of performance with predetermined cuts, this new system of evaluation (everyone flunks) threatens to completely undermine the reforms that were underway, by convincing agencies that performance measures would be used to hurt agencies, punish them for failures to achieve their stated goals, and create incentives to set targets low, to assure they are reached. Sorry to disagree with my good friend Larry, but I think this represents a giant step backward for advocates of improvement of government management.

Professor Irene S. Rubin  
Public Administration Division  
Northern Illinois University

3. Dear Irene: Thanks for your reasoned response and the information and perspectives you provide. Certainly, you do not have to apologize for disagreeing with me. I hope others will respond as well. One point, not all programs flunked OMB's review last year, and their review next year may be more sophisticated. Who knows? It is clear that OMB can handle more sophisticated performance measures in review of those imbedded in department and agency responses to the strategic and performance plans submitted in compliance with the Government Performance and Results Act. And the Bush administration has indicated it will continue to implement GPRA, although we all recognize that the "reinventing government" initiative of the previous administration is dead.

I would like to hear from other IPMN members located in some of the nations I mentioned as progressive, e.g., Australia. I know that our colleague Professor John Wanna at Griffith University has recently completed a yearlong research project in part as a participant observer in the Australian Department of Finance in Canberra. And I would like Professor Kuno Schedler to tell us more about the integration of performance measurement into budgeting in Switzerland. Sharing other updates on national experiences, e.g., in New Zealand, also would help.

One thing that you point out is certain -- we cannot separate any procedural reform from substantive reform, nor from ideology or the politics of budgeting.

Larry Jones

4. Thanks to Larry and Irene, there seems to be a great chance to discuss the latest developments that are going on in the US. As a foreign observer, it is very hard to distinguish between political rhetoric of an administration in office and its 'real' reform agenda.

To support this with an example, I was rather surprised to learn on this net that the new public management type of reforms (including performance budgeting) were said to have failed just at the moment when the new Bush administration took office. This, of course, might be a misinterpretation of incomplete information over here in Europe. One of my students therefore tried to click onto the Website of the National Program for Reinventing Government when preparing for a presentation, and she was rather disappointed to see that some very interesting pages had been deleted.

This listserv is, without any doubt, not the right place to talk U.S. politics too much in detail. However, if a non-US observer would like to take profit of lessons learned in the USA, what is the way to go? Has a reform agenda really failed 'just' because the new government does not follow the old one's pathway? The same is true for many other countries, by the way: The German Schroeder Government changed - at least the name of - its reform agenda from the 'lean state' to the 'enabling state', although I personally don't like the expression: do we know for certain that the 'lean state' concept was a failure?

I feel that one of the problems we have to deal with when analyzing reforms, are changes in political agendas that are not based on evaluation results for certain reforms, but on the political need to differentiate from one's predecessor - especially if he or she

has a different party book. This, too, is a methodological challenge for Public Management scholars around the world.

Kuno Schedler

Public Management Center of Excellence: <http://coc.idt.unisg.ch>

Electronic Government Center of Excellence: <http://www.electronic-government.org>

University of St. Gallen

5. It has been truly exciting to read the multiple opinions and arguments on the rhetoric and realities behind what the current U.S. federal administration calls 'performance budgeting'. Being a doctoral student in Belgium, I had the fortune of spending one year in the U.S. where I focused on the implementation of GPRA as part of my doctoral research (titled: *Revolutions in public budgeting: An explorative research on the uneven implementation of performance oriented budget reform across agencies*). Allow me to share three reflections with you.

One: The current administration's claims and ambitions with regard to implementing performance budgeting appear to be of a simplicity that is disturbing yet not surprising. Using a managerial reform discourse to legitimate strategies of bureau bashing happened before, and is not limited to the U.S. (cf. the 1980s Reagan era in the U.S., Thatcher in the U.K as extreme examples). It even occurred much more recently in the U.S. federal government. The way the current administration uses the performance discourse now in 2002 is not that different from how the leadership in the House of Representatives of the 105th and especially 106th Congress adopted GPRA, renamed into the 'Results Act' and used it in late '97, early '98 in a rather crude scoring exercise on the departments first strategic plans and performance plans. The current, more colorful approach of 2002 has the advantage to the grades assigned by its predecessor: one does not have to be able to read anymore in order to know whether an entire department performs well or badly.

Why should the fact that this happened in 1997, and again 5 years later, not be surprising? The GPRA reform was anchored into a piece of legislation that was generic enough to be acceptable to all - not even the Appropriations Committees were against it! As such it could become increasingly part of Washington's structures of signification, domination and legitimization (cf. Anthony Giddens, *Structuration Theory*. 1979, 1984). As such the discourse of GPRA has seeped into some of the main institutions that compose the U.S. federal government. Some argue this institutionalization is only a matter of rhetoric, and not 'reality', of 'talk' and not 'action'. I would argue that rhetoric is part of reality, and that talks are part of the action, certainly in the political world. Argued from a structuration theory framework, the political and administrative elite in the executive and legislative branch draws upon these structures to try and communicate in a meaningful way, exercise power and legitimate their actions. Of course they twist the meanings of the words to what they believe is meaningful and legitimate and in whatever way they believe it increases their power and supports their political strategies and agendas. Even if those strategies and agendas aim for something completely different than what the drafters of GPRA had in mind. Some have observed over the past years with an undertone of disappointment that 'GPRA' or 'performance budgeting' has been politicized. Of course it has been! Or were we to expect that the political elite would use such a reform in a non-political way? I would argue that the only non-

politicized performance oriented reform would be one that was never implemented. Or politicization as a requirement for, rather than a hindrance to, reform implementation...But that the use of 'performance budgeting' by the current Bush administration is something very different from what the non partisan, managerial reform advocates in the Senate Governmental Affairs Committee and OMB's Management Branch (and later GAO) had in mind when they drafted GPRA in the early 1990s, is clear. When asked, they might prefer to call the recent events 'budget deform' instead of 'budget reform'.

Two: About the uniqueness of the U.S. political system: the uniqueness of the U.S. federal institutional buildup and of its double budget process should not be transferred to uniqueness to the U.S of the events described above. Whether in a U.S. politico-administrative context, or that of a coalition government in some European parliamentary system, or even a state or local government: the patterns of how new governments discontinue their predecessors' reforms under the same label or continue them under a different label, seem fairly universal to me, even though the names and positions of the stakeholders may vary across countries or across layers of government. From that point of view I believe it is possible to come up with analytical frameworks that position the descriptive and explanatory variables through which these implementation patterns may be better understood. Why the political U.S. system would be more complex in this regard is, except for its size, not clear to me.

Three: It is not evident to draw conclusions on whether a reform, be it NPR or GPRA, has failed or succeeded by focusing on the documents that are exchanged (or even the interactions) between Congress, the White House and OMB. Performance budgeting is, if anything, a bottom-up phenomenon, much of which may never reach the surface if one focuses on the government-wide budget battles as unit of analysis. Research at this level reveals little or nothing of the factors that affect the use of GPRA to improve internal management and program effectiveness in individual bureaus. Claims that a government wide reform 'has failed' or 'has been implemented' or 'works' seems a little bit like trying to calculate an average. Whereas in this field calculating and explaining the standard deviations might turn out to be more interesting to scholars and more useful to practitioners.

Wouter Van Reeth  
Public Management Institute  
University of Leuven, Belgium

6. On re-reading the debate so far I decided that I need to make a specific comment on the (mis) interpretation of UK experience and address Larry's comments on it specifically. For those who want to see an unbiased account of some of these issues they should read the National Audit Office report "Measuring the Performance of Government Departments" (March 2001) (can be found on their website: [www.nao.gov.uk](http://www.nao.gov.uk)). (I was an advisor on the report, but don't let that put you off). So let's deal with Larry's 'reading' of UK experience point by point:

"In initiating performance-based budgeting for the federal government President Bush is attempting to bring the U.S. into line with many of the more progressive national practices around the world. Other nations including New Zealand, Australia, Canada,



Switzerland and the United Kingdom have employed performance and output or results-oriented budgeting practices over the past decade or more."

The UK reforms at central government level were initiated in 1997/8 - hardly a decade or more. There have been targets for agencies for some time before that but they covered only a tiny fraction of government activity most of which does not go through central agencies but through other parts of the public sector (local government, NHS, Quangos, etc).

There have now been performance targets set (in Public Service Agreements) alongside a budget process - there is precious little evidence the two had anything to do with one another. In the first round (1998) it was widely accepted that PSA targets were an afterthought, tagged on well after the budget process was complete. Moreover in some departments even their "objectives" were being dreamed up almost as the White Paper went to press. Moreover, to say they constitute output or outcome based budgeting is stretching reality well past the breaking point. The first set of targets (approximately 400) set in 1998 were about 51% process-based, 7% inputs, 27% outputs and only 15% about outcomes (see p21 of the NAO report above, but they are quoting my figures). They improved second time round so that about 68% were about outcomes, 13% outputs, 14% process and 5% inputs. But that was only in 2000. Hardly a great deal of experience to draw on. If Ho Chi Minh thought it was still "too early to tell" if the French revolution had been progressive, I think waving the flag for UK 'outcome based budgeting' is akin to putting the baby's name down for school just after the conception.

"...with multi-year budgets similar to the types of budget processes in use in the United Kingdom, where budgets are enacted for a three-year period and reviewed biennially,"

The initial Comprehensive Spending Review stated firmly that this was a three-year, fixed, budget for "Departmental Expenditure Limits" (DELs). DELs constitute only about half of all government spending and since then more items have been shifted into the other category of "Annually Managed Expenditure". Moreover this 'fixed' 3-year element began to disintegrate almost as soon as the ink was dry. As pointed out in the article I circulated, the 3 years was reduced to 2 (but until late last year the government wouldn't even admit that despite the fact that they had a 2 year second review already!). Moreover, all sorts of interim announcements changing DELs were made.

"In the UK the Department of the Treasury engages in such contracting under the oversight of the Prime Minister and Cabinet and Parliament. However, the real work of holding service providing agencies to their contracts is held by officials of the Treasury."

The first sentence is wrong, whilst the second is understated. Would that Parliament was involved! Parliament plays no official oversight role over PSAs. Some Select Committees have taken it upon themselves to look at the issues, but these have been mainly 'systemic' reviews (by the Treasury, Public Admin & Public Accounts Committees) and only one departmental PSA has been examined specifically (Trade & Industry) since the system was set up. Even the Prime Minister & Cabinet Office has only a passing involvement. The Cabinet Committee (EDX) is run with an iron fist by the Chancellor and Treasury. (An attempt to shift responsibility for PSAs into the

Cabinet Office immediately after the 2001 Election was successfully defeated by Treasury). The Treasury still rules, period. My article examines this in more detail.

Despite the comments of our good colleague Wouter van Reeth there is often a massive disjunction between rhetoric and reality. In fact I would suggest there are actually four layers of analysis with extra one to add to Nils Brunsson (Brunsson, 1987): Talk, Decisions, Actions and Consequences - none of which are necessarily aligned and some of which are deliberately and consciously misaligned. Sometimes even the 'Talk' is contradictory - according to one version PSAs are contracts between the whole government and the people (T. Blair) whilst according to others they are between the Treasury and Spending Departments (G. Brown) and neither explains quite how supposed collective 'Cabinet Responsibility' and the separation between Ministers and Civil Servants fits in (e.g. who's responsible for 'delivery' on PSAs: Ministers? Permanent Secretaries? Both together? And to whom? The Chancellor? Cabinet? Prime Minister? Certainly not Parliament!) In this case I am afraid Larry has swallowed wholesale the UK Government 'line' on what they are about. Sorry Larry.

Colin Talbot  
Weir House  
Llantilio Crossenny  
Wales, UK

7. Dear Colin: Thanks for your contribution to the dialogue on performance measurement and its uses or misuses. In December 2001 I interviewed at length a staff member of the UK Treasury and learned a great deal about how they are using performance measures (Jones, J., 2002). I am writing on this elsewhere but do not want to recount much about it here other than to say that central control agencies generally use whatever leverage they can find to get departments and agencies to do what they (and presumably the governments they serve) want them to do, whether it is to cut costs, increase services, etc. And there is no need at all for you to apologize to me because nothing you wrote about the UK experience changes my view that what the Bush administration is doing with performance measurement is serious, needs to be evaluated carefully over a period of time, and brings the U. S. closer to performance and results-oriented evaluation practices in other nations. You may well be right about the UK experience, but others probably have different views. Also, let us remember one of the truisms about government -- that few managers or agencies really like or want their performance to be evaluated.

Testimony delivered before the U. S. Congress last week by the Controller of the U.S. government and responded to by a representative of the General Accounting Office and the Inspectors General community of the U. S. government demonstrates that these observers and the oversight committees of Congress, and many others have reviewed what OMB has done in its first examination of executive budgets and management practices for the FY 2002 budget and are highly supportive of the administration's efforts. The representative of the GAO, Christopher Mihm, was very specific in stating that GAO had reviewed favorably the criteria supporting OMB's evaluation of department and agency performance in five areas (human resources, competitive sourcing, i.e., contracting, financial management, e-government, and integration of performance measurement and budgets) and that the multi-dimensional criteria

underlying the "stop light" (red, yellow, green) scorecard that our colleague Irene Rubin criticized, are quite sound methodologically. This support may fade but it is clear that virtually everyone in DC is taking the Bush experiment with performance measurement and results and their linkage to budgets very seriously. I will write more about this on the IPMN list server when I have a chance.

Again, thanks for your initiative in contributing to the dialogue. I don't expect everyone to agree with what I write, of course. I claim no corner on the "wisdom" market. What I enjoy is free flowing dialogue with plenty of room for dissent, or whatever any member of the IPM Network wishes to contribute.

Larry Jones

**8.** Christopher Mihm has been cited as supporting the proposed budget reforms in the US with its star rankings of whole departments in terms of performance. He was the giver of testimony before congress from the General Accounting Office in Washington, a congressional staff agency. The testimony was carefully couched in diplomatic language, so that many readings are possible, but a little background should help readers interpret this documentary evidence.

Mihm is from the unit inside GAO called Strategic Issues; these are issues that tend to be hot and risk laden for the agency and are dealt with carefully. GAO needed to try to say something useful, but not be offensive to those supporting the administration. Hence, while offering a lukewarm endorsement of the president's performance measurement efforts (a good start) the thrust of the testimony was that grading the departments should be part of an ongoing effort to improve management [implied, not an excuse to cut department's budgets] and that the GAO has offered a variety of themes that need to be continually pursued to improve performance. He substituted the GAO efforts in this testimony for the content of the president's proposals. Diplomatic? Yes, a ringing endorsement of the president's proposal? No.

I am sure GAO sees what some of us see, after all, they have been watching the budget process and performance efforts for a long time, but it is not in position as a congressional staff agency serving both parties to say what we can say in direct language. I suggest rereading the document in this light.

Irene Rubin

**9.** Interesting reading as to the budget reforms in the US. Two points with regard to Australian experience.

(1) There was substantial reform in Australia prior to the change of government in 1996 as everyone knows. However, the new government was very critical of that reform saying it had not gone far enough and proceeded to go even further into current cost accounting, whole of government balance sheets etc. Schedler is right in saying that much of the critical comments were an attempt by the new government to differentiate itself from the old, when in fact it kept doing the same things only further.

(2) From what I know of the financial changes, some have worked very well indeed. Program budgeting actually works - contra Wildavsky - and current cost accounting even if it has been hard to implement still appears promising.

Owen Hughes  
Monash University  
Australia

**10.** Owen Hughes states that current cost accounting seems "promising". Promising for what? In their IPMJ article on responsibility budgeting and accounting, Jones and Thompson (1999: 206) observed that responsibility budgeting and accounting systems are devised so that employees "serve the policies and purposes of the organizations to which they belong". Nowhere has anyone stated what policies and purposes might be served by the set of features outlined in the current debate, including accrual and current cost accounting.

It seems that particular financial management processes may be selected to achieve strategic objectives; such as privatization and those notions of accountability and efficiency are predominantly rhetoric. E. S. Savas, for example, has been very clear on the particular combination of financial management arrangements required to achieve a privatization objective and that "privatization is the New Public Management" (2000: 316). Savas's approach is highly consistent with our examination of New Zealand's financial management reforms, suggesting that through the selection of financial management and accounting processes, an unstated or hidden agenda may be pursued. We have also obtained evidence to suggest that accounting rules regarding valuation, capital charging, and output pricing etc may be used to influence decision making in favor of privatization by biasing the reported figures.

It would be interesting to know if there is more explicit recognition of this in Australia, the UK, and other countries engaging in similar reforms to New Zealand's.

Sue Newberry and June Pallot  
Accounting, Finance and Information Systems Department  
University of Canterbury  
Christchurch, New Zealand

**11.** Sue Newberry and June Pallot challenge my statement that 'current cost accounting seems "promising"' adding 'Promising for what?' They also say 'Nowhere has anyone stated what policies and purposes might be served by the set of features outlined in the current debate, including accrual and current cost accounting.'

The following tries to address that, by pointing to all that any financial system can do is provide information that can then be used or abused. But, that information was not provided by old-style traditional budgeting. According to Wildavsky, "In the most general definition budgeting is concerned with the translation of financial resources into human purposes. A budget, therefore, may be characterized as a series of goals with price tags attached. Since funds are limited and have to be divided in one way or another, the budget becomes a mechanism for making choices among alternative expenditures." (Wildavsky, 1964: 1-2).

The problem with the traditional budget systems is that there is no information as to (i) the purposes of the spending and (ii) how well or badly the purposes have been met. Wildavsky opposed rationality in budgeting but times have changed; information systems have been greatly improved; no longer is it sustainable that something should not be done because it is hard to do. After fifteen years or so there are some aspects of the new public management which can be regarded as having worked and some which may have not. Of those, in the countries that implemented them well, the financial reforms are probably those that have worked best.

All that any financial or accounting system can aim to do is provide information. Program budgets set out the costs of programs, which along with associated measures allows for decisions to be made as to whether or not they are achieving their purposes. Accrual accounting allows for the long-term consequences of spending to be calculated more precisely by its effects on the overall balance sheet as it includes changes in asset values. Using cash accounting is actually a distortion. For instance, paying for a new ship for the navy as cash is poor accounting as the asset has a finite life and should be depreciated over that time.

Of course, financial reforms are not perfect; of course there are problems in precisely setting the performance measures; of course accounting systems can be used to reinforce power structures. They can also be used to hide or deceive as evidenced by Enron. But more information allows for better decisions to be made, though does not guarantee them. In a democratic system those decisions are made, for good or ill, by elected governments, where the traditional systems allowed civil servants to hide the true state of the accounts from their supposed masters. Having transparent accounts does increase ministers' power and those of central agencies, but is more accountable to the people. Was it really better when there was so little information that the best form of accounting was by cash and the best form of budget was by input only with an amount set aside for salaries, a little bit for postage and phone calls?

Colin Talbot's story is very interesting, but it is a mistake to generalize what happens in the UK - if it is as all bad as his account suggests - with the other experience of budget reform or public management reforms. In Australia at least, financial reforms have enabled recent governments of both persuasions to have far more control of their budgets than they had previously and this has allowed expenditure to be targeted. The information is simply better. More than ten years experience with Forward Estimates shows they really do work in their examination of spending several years out. A government can still make a bad budgetary decision but it will be made aware of the long-term consequences.

Owen Hughes

**12.** Let me drop a few lines about Switzerland, as Larry has mentioned this small country in his email. Here, after a period of nearly ten years of NPM pilot projects (which claimed to be completely reversible in the case of failure), many Cantons ('States' in US terminology, or 'Laender' in Germany) have decided to full implement NPM concepts as the leading control model both in the political and the administrative system. Among these new elements, there are results-oriented budgets and mid-term task and finance planning. When reading the official papers, you might recognize the

international NPM terminology quite easily - although, of course, everything is in German. The question remains here, too, if practice does follow these official papers.

Our research suggests that there is no clear picture: some elements such as accrual accounting have been implemented perfectly (although not as a result of the NPM, but in the seventies); others such as modern human resource management tools (including the abolishment of tenure for civil servants) are common, too. Even marketization elements have been implemented successfully. Departments and Agencies are signing performance contracts, with some excellent impact on cultural and organizational change in outstanding examples - but also with some (and not less) examples where nothing has changed at all. Above all, we state a significant change in cost awareness as well as customer orientation - not worth mentioning, however, is the (expected) change in political control processes or behavior yet.

Nevertheless, a new form of mid-term planning seems to move its way into the politico-administrative system in this country: Something we call 'Integrated task and finance planning'. It is nothing else but results-oriented planning for 3 to 5 years, including outcomes. But, keep in mind that this decision to implement it has been taken in 2000 or 2001, and there is only very short-term experience in Switzerland.

NPM euphoria has calmed down in Switzerland as implementation efforts take much more energy than rhetoric. People ARE doing it, and they are both suffering from it, and they still believe in the advantages of NPM. Resistance grows, as soon as it becomes clear that NPM is not just another fad that can be survived by ignoring. At the national level, there is a fairly big project running to introduce accrual accounting and budgeting, discussing IPSAS standards for our country. Many things are on the way - more seriously than ever since WW II - but an evaluation synthesis written at this University showed that there are some important questions remaining.

Switzerland is definitely a late and slow mover, which is a result of its "consensual model" in the words of Bouckaert and Pollitt (2000: 48). It seems, however, that these small steps are taken seriously and will be implemented with some remarkable success - even if not really perfectly.

Kuno Schedler

**13.** Kuno makes a good point, I would not say the prior administration's reforms failed while they were being implemented; they had a mixed record. At times, prior reforms may be embedded in present ones and renamed, to give elected officials their own program -- which certainly does happen. What I was trying to call attention to is that the previous efforts at measuring performance, while mixed, were serious and not particularly partisan, not linked to budget cuts. This present version doesn't seem to embody anything from the previous efforts and it is oriented to cuts. So I don't see either much continuity or any improvement. This version seems less management oriented than its predecessor. That is not an evaluation of the predecessor, but of the successor.

Irene Rubin

**14.** Isn't the problem Kuno cites precisely the one that Christopher Pollitt, among others, has been addressing, for example in his 2000 article in *Public Management* and in his presentation at the 2000 International Research Conference on Public Management, where he distinguished between government talk and government action?

It is tempting to equate talk with action because government talk is accessible and often gratifyingly robust whereas action is often hidden, ambiguous, and costly and time-consuming to investigate and interpret. But there can be no excuse for confusing talk with action. Reform is action and real reform is action that has become institutionalized (perhaps because of legislative or judicial mandate) and survives (or whose effects survive) regime changes (even if renamed). As for the U.S., watch what we do, not what we say. As for what we are saying and doing, I think Irene has it right.

Larry Lynn  
University of Chicago

**15.** I have been mighty curious in reading so many comments from so many American scholars who have completely dismissed the performance strategies in the new budget. Heaven knows that there is a heavy dose of politics in the budget--and that the analytical strategies are designed in part to pursue political ends. (So what's new about that!) But I've talked to a few people who have been involved in the process and they tell me that there is some considerable fire behind the smoke, and that the President was personally involved in discussing performance as part of the OMB Director's budget appeals. GAO, moreover, thinks that something is going on here (as Mihm's testimony points out--and I'm proud to say he's a former student of mine). In short, I think we ought to do a little research before drawing conclusions.

Don Kettl  
University of Wisconsin

**16.** Americans can generally agree that our political system creates unique and more complex paths for processing political preferences and institutionalizing reforms than many other systems. Recognizing the pattern of confusing political talk with action plays an important role in understanding public management reform in the U.S.

But I would remove the qualifier (U.S.) from Lynn's "watch what we do, not what we say" for two reasons. One, concern for the consequences of confusing talk with action resonates among European scholars, as Lynn points out, and work in this field often acknowledges the early work of the Scandinavian scholar, Nils Brunsson (Brunsson, 1987). Second, reforms may develop their own language but political contexts transform reforms: it is not the same rose even though the same name or phrase might be used.

Finally, given that the U.S. National Performance Review reform initiative was so strongly attached to the previous administration and that one explanation for its failures was its substantial dependence on the executive branch, it should not be surprising that the current administration would attempt to stamp its own mark on administrative reform. It may be early to attempt to unveil the real content of the Bush Administrative reform program.

Lois R. Wise  
School of Public and Environmental Affairs  
Indiana University

**17.** I agree completely with what Lynn and Wise have contributed. It matters little what various administrations say they will do. What matters is what they actually do. The rhetoric of the reinventing government initiative of the Clinton administration was formidable but the results may be viewed as, for the most part, a failure. As Wise points out (and as I indicated in my Newsletter essay), it is far too early to judge the success or failure of the Bush administration's performance budgeting initiative. However, what various administrations say they will do is critically important. Without a statement of intent we have nothing to judge actual performance against. Additionally, I believe strongly that comparative research on the use of performance measurement is possible and potentially valuable, despite differences in political systems. And Pollitt is quite right about rhetoric not matching reality. But this conclusion is hardly new. Aaron Wildavsky drew such conclusions about the success of PPBS in the 1960s and 1970s.

Pointing out that rhetoric falls short of achievement is easy. What is more difficult is to find out something about the intended and unintended consequences of reform. For example, PPBS "failed" as a budget reform for the U.S. federal government as a whole, but it is used still in the Department of Defense. So, was it a success or failure? The answer is not so simple. In fact, it appears that PPBS has both succeeded and failed in the U.S. What is interesting, therefore, is to investigate what factors appear to have influenced success in one context and failure in another. I have conducted research and written on this but will not review my conclusions because this dialogue is not about PPBS. Rather, to a considerable extent, it is about whether it is useful to try to evaluate government reform with performance measurement against the rhetoric that initiates it. Will anyone argue that such effort should not be made? Or have we grown too cynical, or too partisan, to try?

Thanks to all for your contributions thus far -- I value each -- and I look forward to hearing from others.

Larry Jones

**18.** I too agree with Irene and Larry. One of the problems involved in making the cross-cultural comparisons is the US political system. What the president says has to be vetted through a complex system and thus it becomes more rhetorical than real.

Beryl A. Radin



**19.** Just one brief rejoinder here, in terms of ability to evaluate the Bush administration proposals for reform. You don't have to wait for years to find out how a reform will work if the proposal is not viable on its face. One of the requirements the Bush administration made in its present round of the budget preparation, though departments have already been judged wanting on this criterion, is for agencies to do some workforce planning. This is urgently needed given the retirement profiles in many federal agencies. When asked if this workforce planning would be integrated in any way with the budget or allocations, I was told "no." Sorry, I don't see that as a workable reform. How can I link staffing to work complexity and quantity without also linking it to budget? At least in the salaries and expenditure component of the budget? This is one of the many items that convinces me that these reform proposals are just window dressing. So yes, I have made a preliminary judgement, subject to later emendation if I get contradictory evidence.

Irene Rubin

**20.** While I think Irene Rubin gives an excellent analysis of this abuse of performance measurement, I must disagree with her statement that the "The so-called evaluation of departments...is nothing like performance measurement." It is a lot like performance measurement, although it is grandly abused. Performance measurement, like benefit-cost analysis, is not a value neutral technique. When performance ratings are revealed, it is the ratings that get attention, but it is the criteria that are important, that is where values are found. Unfortunately, we do not have a history of public accounting for the criteria used. The old example of a similar abuse was the Grace Commission's defining of programs it disagreed with as "waste." Confusing evaluation of policy decisions with evaluations of faithful, effective and efficient pursuit of one's official policy goals is unreasonable, but who holds the evaluator accountable? I hope that distinguished Professor Rubin will see this comment as a friendly amendment to her comments.

Dan Williams

**21.** Thanks Irene. As usual, life is never simple! I'm immensely grateful for your interpretation (though as usual I am sure others will differ). What it does show (and one of the points I was implicitly making and my good friend Christopher Pollitt never ceases to reiterate) is how easy it is to misinterpret across cultural and other borders...mea culpa! My main thrust was the way Bush and our Treasury sees performance - as an old fashioned, rationalist, top-down, command and control system. Some of what Christopher Mihm said tends to reflect this view, but I take your point about a more careful reading being required.

I was arguing that complexity and political theory teaches us that it is never going to, nor should it; ever work like that in practice. Politics and complexity will always get in the way. It is in fact a good example of Brunsson's (Brunsson, 1987) 'organisational hypocrisies' - rationalized tales we tell others and ourselves about fundamentally contradictory and paradoxical realities of organizational and political life. Comforting and sometimes even functional, but hardly enlightening!

Colin Talbot

22. Irene: I agree that what you have pointed out does not seem to make sense budgetarily. This bears more scrutiny, which will take time in terms of asking OMB officials what they are doing, whether they have made an error, etc. Further, the administration and some members of Congress (in recent budget hearings) have expressed interest in a number of reforms (those interested should see the President's Budget or Budget Summary [for 2003]), including multi-year or biennial budgeting, that will require some time to evaluate -- both in terms of what OMB does and how Congress responds. I agree that in many instances administrations use budget reform rhetoric as a "smokescreen" to draw attention away from substantive changes in budgets. A chapter by Lotte Jensen details how Treasury officials have apparently done this in Denmark (Jensen, 2001). And there are plenty of other examples of this. Nixon did this to some extent with management by objectives in the period 1969-1973 to draw attention away from social service program cuts to programs initiated by the Johnson administration. So, perhaps we can view some short-term actions such as those you indicate, as wrong or at least confusing, but in most areas I think it takes some time to tell what has happened versus the rhetoric. Look at the "reinventing the federal government" effort for example. The rhetoric was outstanding...first rate. However, the implementation, for the most part, was very disappointing. What we need are more examples of success rather than failure. The need for this is reflected in what Bouckaert and Pollitt (2000) have written.

Larry Jones

## **RECENT U.S. PERFORMANCE BUDGET REVIEW**

Reform continues in federal budgeting as implemented by President Bush and the Office of Management and Budget in the FY 2002, 2003 and 2004 President's Budgets. Performance reform by the Bush administration should be viewed as a continuation of a trend begun in the 1990s. (Rodriquez, 1996) Budgets have been prepared and analyzed using what may be termed performance-based budget review to link funding to performance measures and accomplishments for federal programs within departments and agencies. The approach used by OMB for the FY 2003 President's Budget, the "Program Assessment Rating Tool" or PART, was employed to score performance in approximately 220 programs (about 20% of total on budget federal programs) for the President's Budget. PART scores programs using a multi-variable (approximately 30 variables) criteria set according to what may be characterized as a "stop light" system: red for failing performance, yellow for marginal performance, and green for good performance. OMB intends to extend the application of PART to all programs in the budget in future budget review. If this is done it will be a time consuming effort.

For FY 2003 many programs received failing scores -- but improvements were measured for FY 2004. Departments and agencies have invested staff time and energy into achieving improved ratings in attempt to be rewarded in the President's Budget. The key incentive supporting the PART system is the intent of Director Mitch Daniels and OMB staff to integrate the performance scoring with OMB budget review. Presumably, programs that improve their ratings will be rewarded in the budget. The

advantages of the PART approach are two-fold. First, the scoring is easy to understand because it is simple -- red, yellow, green -- like the ABC scale used in graduate education (a C isn't a failing grade and, likewise, agencies receiving red scores don't lose their budgets). Second, PART scores are scaled relative to a set of variables that represent the strategic and annual planning, management and execution performance by programs according to data developed and reported to OMB by agencies. OMB does not provide the data for PART reviews.

Review of the PART system in late 2002 by departments and agencies rated by OMB indicated several recurrent criticisms. The PART questionnaire instrument requires yes or no answers to a number of questions about performance. It has been suggested that a better system would have departments and agencies rate their answers on a scale, e.g., 1 (lowest) to 5 (highest). Scaled data are more amenable to analysis than yes/no responses. A second criticism is that the way OMB has defined the units of analysis -- as programs instead of departmental or agency administrative entities. Some programs defined by OMB are not administered as such by departments and agencies, thus making performance reporting more difficult. A third criticism is that while OMB provides some feedback on their assessment of questionnaire responses and desired improvements in program performance, more information of this type is needed.

Testimony to Congress by David Walker, the Controller General of the U.S. government, and responses by representatives of the General Accounting Office, the Offices of the Inspectors General and members of Congress indicate that important institutional observers, including the key oversight committees of Congress, have reviewed OMB assessment of executive programs and management practices for the FY 2003 and 2004 budgets. They are supportive of administration efforts (Walker, 2002). GAO has been very specific in stating that it had reviewed favorably the criteria supporting PART and OMB evaluation of department and agency performance. OMB has targeted review to improve performance in five areas of management: human resources management productivity, competitive sourcing (i.e., contracting out), financial management, e-government, and integration of performance measurement and budgets. As noted in the dialogue above, Christopher Mihm of GAO stated that in his view the approach and its execution were methodologically sound. (Mihm, 2002)

GAO review of performance management from the late 1990s to late 2002 has been supportive (GAO, 1996; 1997; 1998; 1999; 2000a; 2000b). GAO has favored performance measurement to the extent that it recommended in 2002 that Congress adopt a "Performance Resolution" process to measure and report annually on executive agency progress. This approach would function in a manner similar to the Budget Resolution process. (Posner, 2002) Such support for performance budget review (as distinct from broad-scale performance budgeting) may change, but it is clear that virtually everyone in the nation's capitol has taken serious notice of the Bush administration initiatives with performance measurement and results reporting linked to budgets.

To put the initiatives of the Bush administration into larger context of the status of federal budgeting in 2002, observers of the congressional budget process expressed the view in late 2002 that without caps on spending, and without the other restraints from the Budget Enforcement Act that has expired, including Pay-Go that attempted to control increases in the huge non-discretionary accounts (approximately 70% of total

federal spending annually) including Social Security and Medicare, the federal budget process was "broken" and in need of reform. (Davis, 2002; Joyce, 2002; Meyers, 2002) Further evidence that the process is in trouble abounds. The federal budget moved back into deficit in 2002 (\$160 billion) after four years of annual surpluses. Congress failed to pass a Budget Resolution (the congressional budget plan) in 2002. It failed to do so also in 1999 -- leading some to question whether a BR is needed at all. Congress failed to pass any of the 13 regular appropriation acts to fund government for 2003 before the beginning of the fiscal year on October 1, 2002. This is not abnormal but what distinguished 2002 was the failure of Congress to even pass these bills out of the appropriations committees before the beginning of the fiscal year. Worse of all however, for the first time since passage of the Gramm-Rudman-Hollings Act of 1985 (GRH) there was an absence of any sign of consensus in Congress that the budget should be balanced at all. (Joyce, 2002; Meyers, 2002)

How did this bipartisan consensus, built and reinforced over fifteen years, disappear so quickly? First, the downward economic slide of the U. S. economy continued despite the monetary stimulus efforts of the Federal Reserve Bank to spur recovery and a "soft landing" after the boom years of the 1990s. The economic downturn reduced federal revenues dramatically by FY 2002. In 2001, based upon projections of lasting surpluses and a belief that fiscal policy push was necessary to "jump-start" the economy, President Bush proposed and Congress approved a large tax cut taking effect immediately and lasting through 2010. Then, after the attack on the U.S. on September 11, 2001 spending for national defense and security skyrocketed at the request of the President and with full support from Congress. The war on terrorism consumed the interest of the executive and legislative branches of government and the American public. The mood of the nation supported spending whatever was necessary to increase domestic security and to fight terrorism globally. By August 2002, the Congressional Budget Office projected deficits through 2008 under fairly rosy projections for economic recovery. Power in Congress was split between the two political parties: Republicans held the House but in the Senate the Democrats held a one-vote majority. With such a split, Democratic leadership in the Senate refused to move on the FY 2003 budget before the November 2002 elections. And with the potential that both houses of Congress could be won by either party, politicians on both sides grew skeptical of voting on spending bills prior to the election. Democrats suggested that the tax cut should be repealed but did not have the votes to have this preference considered seriously. Many members of both parties did not like the idea of increasing taxes just before an election. Thus, chaos and budgetary inaction reigned, and consensus on balancing the budget in the near term was lost. The sense that some measures to instill discipline into the federal budget process were needed was shared among fiscal policy advisors, including Alan Greenspan, who continued to recommend to Congress that caps on spending be reenacted in 2002. (See also Joyce, 2002)

The fact that the Bush administration continues to demonstrate strong interest in budget reform appears to open the door to discussion of even more ambitious change to instill much needed discipline into a fractured budget process. Executive budget cutting in discretionary accounts is the tool available to the President to reduce spending. The President has no power to create spending caps for Congress. In absence of such caps, to move toward balancing the budget the President can either attempt to cut the budget and/or increase taxes. Increasing taxes during a recession appeals to few elected

officials or economists. What Congress will do with respect to controlling spending is uncertain at least until well into 2003.

Whether Congress decides to invest more energy into performance review of the budget also is impossible to forecast. It seems unlikely in the short term because Congress cannot manage the process it is supposed to follow at present. Despite the recommendation from GAO that Congress use a performance resolution, it seems unlikely that Congress has the institutional capacity or the will to apply performance assessment in budgeting. Appropriations committees shun this approach because they believe it will reduce their discretion over spending. Few members of Congress want "budgeting by formula" as performance budgeting is perceived. However, whether Congress takes action to further implement performance measurement and management, strategic planning and budgeting in conformance with the Government Performance and Results Act of 1993 may not make much difference.

How much difference does it make whether Congress uses or ignores performance budgeting or performance review? To some extent performance measures have been used routinely by Congress to review and enact budgets since the 1950s and before. A vast number of performance proxy measures are built into federal budgets for programs ranging from the National Forest Service and Bureau of Land Management to the Department of Defense. Performance budgeting, is using formulas that equal dollars reduces complexity in congressional budgeting as Wildavsky explained years ago. Can Congress be expected to do more? Who knows? The point is that with respect to executive branch budget reform, it doesn't matter much how Congress budgets. The executive branch can institute the types of reform it deems fit and useful. Again, this is nothing new. Most of the major budget reforms in the post-WW II period have been developed and implemented in the executive branch, e.g., program budgeting in the 1950s, PPBS in the 1960s, management by objectives -- and budgeting by objectives -- and zero based budgeting in the 1970s, top-down budgeting in the 1980s and now performance review post-2000.

Given this perspective, types of budgets and processes employed elsewhere may be useful in the executive branch of government in the U.S. in combination with performance review. In the United Kingdom, budgets are enacted for a three-year period and reviewed biennially using performance measures (Jones, J., 2001). In Australia, a five-year cycle of budget enactment and review is used that includes output measurement and review. Similar processes operate in New Zealand, Sweden and other European nations (Guthrie, Olson and Humphrey, 1999: 209-228; see also Pallot, 1998:156-184; Olson, Guthrie and Humphrey, 1998; Jones, Guthrie and Steane, 2001: 1-26; Carlin and Guthrie, 2001: 89-100; Guthrie, Olson, Humphrey and Jones, 2003 in press). The Bush administration has moved in 2001 and 2002 further into performance budget review than any previous U. S. Presidential administration. More executive branch budget reform is likely to be in the offing in 2003 and 2004 under the direction of OMB.

As Lynn and others have advised, what is important is watch what governments do, not what they say. Further, it is accurate to criticize governments, in the way that Bouckaert and Pollitt (2000) have done, for failing to satisfy rhetoric with action -- because this happens so often. This is the obvious norm, not the exception. However, in this case it seems that the Bush administration and OMB have backed up what they have said they

would do with what they have done. Political opponents of the administration find this hard to accept for obvious reasons. After all, almost everything that governments do involves "politics" and political priorities and preferences differ between the two U. S. political parties. That political preferences influence enthusiasm, or lack thereof, for Bush administration performance budget reform should come as no surprise. Very few, if any, procedural reforms in government are policy neutral. To believe otherwise is to be a poor student of the political process. Virtually all-procedural reforms produce substantive winners and losers. (Wildavsky, 1961: 183-190; McCaffery and Jones, 2001: 333) Budget and all types of management reform typically involve implementation of political priorities that please some and frustrate others. Isn't this what we should expect in a democracy? Would we want it to be otherwise?

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