Faculty Research Working Papers Series

Good Government Means Different Things in Different Countries

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November 2008
RWP08-068

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Abstract

Recent work on good governance implies a one best way model of effective government. This work has isomorphic influences on academic, donor and reform engagements in developing countries. But the one best way model actually does not hold, even for governments that score highly on governance indicators. Governments actually look different, even if they are similarly called 'effective' or 'models of good government'. The current article examines this issue and proposes a contingent approach to explain why good governments can look different. It suggests that government structures need to be explained in terms of the governing context—not the isomorphic influence of what indicators suggest good governance is. Key contextual factors that a contingent approach would consider in appraising government include economic challenges, demographic realities, and socio and political structures. The paper draws these factors out of an inductive analysis of differences in a set of OECD countries considered examples of 'good government'.

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Introduction

Variation is one of the world's core characteristics, manifest in our abilities to categorize things on the basis of uncountable variables and in the many manifestations of global inequality. The international need for social and economic development is also a broadly felt 21st century issue. In pursuit of this second issue, however, many observers have forgotten the first, applying routine development solutions to different countries, regardless of variation. The good governance movement is an example. It manifests in highly influential indicators composed of multiple dimensions that seemingly constitute a one best way model of good or effective government around which all countries should converge—especially those needing to develop. Political and administrative reforms in uncountable countries are directly shaped by indicator scores and their underlying 'best practice' dimensions, with countries apparently buying into the implied story that 'this is what good government looks like.'

I challenge such story in this paper, arguing that the good governance version of good or effective government is a hollow one imposing a false one best way model on developing countries. Countries that come out reflecting 'good government' according to the good governance indicators actually look very different, varying on the very dimensions that indicators imply are central to good government. It appears that through their developmental processes, these governments have implicitly treated the governance movement's list of dimensions as a set of items on a long menu, 'choosing' what they have appetite for and leaving others. They provide first hand evidence that good government means different things in different countries. The development community needs frameworks that help explain why these differences arise and how contextual factors in different settings allow for the emergence of different dimensions of good government and not others. Without this the menu of dimensions is nothing more than a collection or proverbs, quotable and convenient constructs for thinking about government that are also fraught with contradiction and complexity.

This paper takes initial steps towards thinking about such framework. It has three sections, beginning with a discussion of problems in existing good governance work. This work has admirably located government in the development dialog, but should be reconsidered before it becomes a political and administrative version of the now discredited Washington Consensus. In the spirit of reconsideration the first section hypothesizes, on the basis of various observations, that even good government countries look different, and follows this with and the central research question: "Why?" The hypothesis and question are addressed in sections two and three. Section two analyzes data on the public financial management (PFM) structures in a selection of governments. PFM structures are central to most of government arrangements and broad good governance work identifies good government PFM characteristics. Section two shows, however, that governments we would comfortably call good or effective are (i) not more likely to exhibit these characteristics than other governments, and (ii) have highly varying characteristics themselves. Section three draws on the discussion in section two to inductively identify factors that appear to influence the observed differences in PFM structures in the good governments. These include economic pressures, political structures and social challenges, which the section suggests could be framed in a contingency framework emphasizing the fit between government structure and governing context. This framework requires further development but could significantly enhance our understanding of what makes good government and why good government often manifests in such different forms.

Observations and Questions about Good Government[2]

The good governance community has grown in the past decade, producing many indicators (including the World Bank's World Governance Indicators (WGI), Economic Intelligence Unit statistics, Heritage Foundation Wall Street Journal indictors and a myriad of others). Most spotlight structural characteristics of governments and associated outcomes considered important for development: The World Governance Indicators (WGI) name a measure 'Government Effectiveness' for example. The indicators (WGI and others) arguably underlie strong isomorphic influences on thinking about what effective government is. Academic work, lending engagements and reform proposals gain legitimacy by identifying with the "myth" that formal structures reflected in the indicators provide a rational means to attain desirable ends (Meyer and Rowan 1991, 46).

[2] This discussion draws heavily on Andrews (2008).

The question is how helpful this picture of good or effective government really is, especially for those working in development.

I initially attempted to address the question by relating to theory underlying the indicators. This is unfortunately not clearly discussed at any point in the literature, though prominent authors allude to North's institutionalism and Weber's bureaucracy as major influences. Prescriptions for limited government are proposed to emanate from the former, and for formal government systems from the latter. There are also strands of new public management in the thinking as well, ostensibly introduced because they link to efficiency issues. Thomas (2006, 10) describes this mix of ideas as the result of "personal ideas of governance" shared by the people developing indicators[3] and argues that the "underlying [theoretical] construct has not been defined." Agreeing with her sentiment, I turn to the indicators themselves to better understand what good governance proponents portray a good or effective government as.

There are many indicators to choose from. I focus on the WGI government effectiveness indicator because it is a composite of many others and thus gives a picture of the community's perspectives in general. It is also the most prominent indicator, which suggests the following picture of good or effective government:[4]

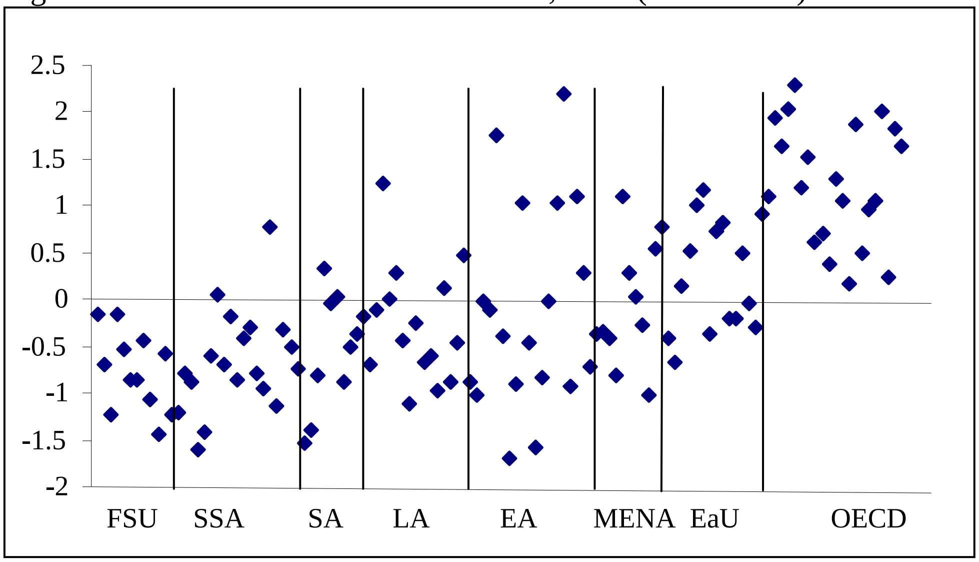
> An effective government is small and limited in its engagement, formalized in mission and process and drawing limited revenues primarily from domestic sources. High-quality personnel devise and implement needed programs and deliver efficient and effective services via participatory processes and through formalized, disciplined, efficient and targeted financial management. Responsiveness to the citizenry's changing needs is high and effected through transparent decentralized and politically neutral structures; consistently, even during political instability, without impeding (indeed supporting) the private sector.

I imagine many readers find this word picture immediately appealing—the kind of government we would all like. However, it is not the kind of government most countries have. Consider, for example, that most countries fall below 0 on the composite indicator for government effectiveness produced by WGI. Consider further that there are very few good governments outside of the wealthier parts of the world (notably the OECD,

[3] Particularly the WGI indicators.
[4] This is drawn mostly form the government effectiveness component but also includes elements from other components (observed in the 1999 and 2003 Governance Matters publications). Combining them into this word picture is Guy Stuart's initial idea.

European Union members of Eastern Europe (EaU), the Middle East (MENA) and East Asia (EA)). Figure 1 shows the 2006 scores for 81 countries around the world.[5]

Figure 1. Government Effectiveness Score, 2006 (-2.5 to +2.5)



Most governments in developing and transitional regions, the Former Soviet Union (FSU), Sub-Saharan Africa (SSA), South Asia (SA) and Latin America (LA) score in the ineffective space below zero. The scores seem to show comparative performance against a one-best-way model of good or effective government ostensibly reflected in the top performing countries—Denmark, Singapore, Canada, Sweden, Australia and the Netherlands,[6] the United Kingdom, Hong Kong, USA, Belgium and Germany.[7] So one asks whether these countries have characteristics common to each other and to the effective government dimensions of the WGI?

Are the 'good governments' alike?

The dominant characteristic of these model governments is an advanced level of development. They all boast fairly continuous economic growth periods in the last

[5] I capture scores of 81 countries, randomly by region. 46 are from developing and transitional regions (FSU—Former Soviet Union; SSA—Sub-Saharan Africa; SA—South Asia; LA—Latin America; EA—East Asia; MENA—Middle East and North Africa). 35 are from more developed regions (EaU—Eastern Europe and the OECD).

[6] The six that scored above 2 and make up the top five percent in the 81 country sample.

[7] These scored above 1.5 and rounded out the top ten percent in the sample.

century,[8] have relatively high macro-economic stability and budgetary reliability, are predominantly financed by domestic taxes largely emanating from entrenched industrial economies, and perform strongly against social indicators like infant mortality and life expectancy.

Frustratingly, however, they do not model the reasons for success as consistently as they do success itself. Put another way, they are not all commonly characterized by the processes implied in the WGI model (or other indicators). While one may argue that all of the governments exhibit formal bureaucratic systems with disciplined budgetary processes, for example, and are commonly focused on introducing new public management mechanisms, differences in the details of how these systems work are quite significant (Curristine 2005; Hallerberg et al. 2007; Joumard et al 2004). The degree of political influence on appointments, promotions and performance assessments varies significantly across the governments, for instance (Matheson et al. 2007). The use of arms-length agencies also varies, as does the degree to which these agencies are subject to formal rules governing the rest of government (Matheson et al. 2007). All of the governments' financial management systems are characterized by formal procurement and planning and monitoring mechanisms, but they all function differently—with some exempting agencies from such mechanisms, for example, and others holding agencies accountable in ways similar to the rest of the public sector. Legislative engagement in budgeting processes is also notably variable, suggesting quite different models of budgetary decision-making and accountability (Lienert 2005).

There are even more prominent differences when one considers the limits and size of government and the degree to which it is engaged in the economy (Handler et al. 2005). The good governance picture suggests the importance of limited government, which it measures in terms of legal checks (rule of law) as well as constraints on government scope and fiscal size.[9] While rule of law is central to all of the 'good governments' it is much more limiting in some than others. A recent OECD survey of

[8] Singapore and Hong Kong vary a bit from this generalized statement.
[9] The WGI "Regulatory Burden" element has as one of its core sources scores on the Heritage Foundation/Wall Street Journal Index for government intervention in the economy, which is measured in terms of the following: Government consumption as a percentage of the economy; Government ownership of businesses and industries; Share of government revenues from state-owned enterprises and government ownership of property; Economic output produced by the government.

budgeting practices found, for example, that the United States legislates processes in all 11 areas queried but the United Kingdom only legislates 4 of the 11, implying different levels of discretion in the latter.[10] Government revenue and spending as a percentage of GDP ranged in these governments from about 35 percent to about 55 percent in 2004 (Hauptmeier et al. 2007, 268).[11] At the high end a government like Sweden uses this money to fund extensive engagements across the economy and plays a dominant role in financing and providing social services (also providing "bakeries, gyms and garden centers" (Henrekson 2005)). At the low end the United States government is more restrained in its social activities and the private sector actually plays a bigger role in financing and providing key services like health care. Comparing the two reveals that the governments actually differ a lot, at least in size and scope—two variables organizational theorists find foster all sorts of other structural variations.

The model governments differ in other areas as well. The governments exhibit different levels and types of decentralization, politically, administratively and fiscally (Mosca 2007, see Stegarescu 2004). Also, while economic and administrative regulatory burdens tend to be lower than in other countries (except for Belgium, which has higher levels) they are still highly variable across the sample (OECD 2005; Malyshev 2006). Different regulatory mechanisms underpin different relational structures between government and the private sector and also partially underlie variation in the patterns of new entrants and exits in the private sector. Major variations in these patterns show that private enterprise also behaves differently across the nine countries, being more prone to entry in some settings (like Denmark, the Netherlands and the United Kingdom) than others (Sweden and Belgium, for example) (OECD 2005).

[10] The numbers draw from my own assessment of question 4, a to k, in the 2007 OECD Budget Practices and Procedures Database, which asks about the legal basis of the following: The form and structure of the annual budget and related legislation; The timing of the annual budget process; Roles and responsibilities of different parts of the Executive in budget formulation and execution; Roles and responsibilities of the Legislature and the Executive in the budget process; Provisions on what happens when the budget is not approved by the beginning of the fiscal year; Requirement for legislative authorization of spending; Requirement for legislative authorization of taxes; Rules for the use of contingency or reserve funds; Requirement for audit of Government accounts by the Supreme Audit Institution; Requirements for internal audit structures in line ministries; Management and reporting relating to off-budget expenditures.

[11] The entire group of governments was in fiscal trouble in the early to mid-1990s, the tail of a fiscal expansion period that led to some significant adjustments in the past fifteen years.

A consistent picture of what success looks like in the public and private sectors of the model government countries is thus not corroborated by a consistent story of why it looks this way. This raises a concern about the way governance indicators have us thinking about what good and effective government is; using examples of success to show what success is without explaining why it looks this way is like telling developing countries that the way to develop is to become developed, "hardly useful policy advice!" (Rodrik 2006, 13). Implying that there is one underlying model for success when there plainly is not, is even worse. The observed differences in characteristics of governments we would commonly call good or effective surely suggests a hypothesis that no such model exists and rather, that:

> H1: Good government means different things in different countries: Countries that are commonly successful (facilitating high income levels, social outcomes, service delivery) achieve the success through a different mix of structural and organizational characteristics.

From a model to a menu

It is important to note that elements of the good or effective government picture painted by governance indicators are already fixtures in global public sector reform programs. These range from decentralization to the development of formal bureaucracies, the introduction of arms-length agencies (and reduction of civil service) and various public financial management reforms (including multi-year planning and program and performance budgeting). In a recent study of 31 African countries public financial management reforms I find governments commonly pursuing multiple 'best practice' constructs together, in the form of a model: like multi-year budgets (29 of the 31), program, activity or performance budgets (25 of the 31), external audit and legislative reform (28 of the 31), and decentralization (20 of the 31) (Andrews 2008a).

One should note the cross-country variation in this sample: About half had Francophone histories (where external audit did not exist in the modern guise), 7 of the 31 countries had experienced serious social and political upheaval in the last five years, 6 had not produced an annual budget in at least one of the last three years, at least half had major discrepancies in the line item classification scheme they used, and about 80% of the 'decentralizing' governments spoke of limited to no capacity at local levels for any kind of administration (let alone the performance budgets that were being introduced in some). Surely the variation in countries should have led to varying types of reform proposals, composed of different mixes of the best practice constructs (and perhaps some constructs that are not best practice)?

The stories of replicated ‘best practice’ reform designs abound, as do tales of failed reforms. The latter are partly to blame (I believe) on the fact that effective government elements underlying reforms resemble the principles of administration Herbert Simon decried as problematic proverbs sixty years ago—quotable and convenient constructs for rationalizing past behavior or justifying future decisions but defective in providing serious theoretical explanation or practical advice. Simon (1947, 53) argued that, as with all proverbs, the principles of administration of his day stood well when applied alone and in the right context but poorly when considered in tandem with others: “For every principle one can find an equally plausible and acceptable contradictory principle.” Fiscally disciplined governments often provide a strong foundation for economic growth, for example. Decentralized governments can have better targeted and efficiency-enhancing service provision structures that also facilitate growth. But many governments attempting decentralization find sub-national entities a big threat to fiscal discipline!

The discussion of variation in ‘good government’ structures suggests to me that leading world governments do not treat these sets of potentially conflicting principles (or proverbs) as elements of one strict model, but rather as items in a menu. Put metaphorically, Sweden ‘chose’ to have a large but decentralized government system for providing its health care, because it ‘fit’ the context. The USA has a system dominated by the private sector perhaps because it ‘fit’ that context as well. The two governments and societies adopted different menu selections of different practices, to achieve similar objectives (provide world class health care). Interestingly, there is evidence of choice even within governments and over time. While authors like Wehner (2007) show convincingly that wealthier, more developed countries are also more transparent, most wealthy governments ‘choose’ lower levels of transparency in certain sectors—like defense. History tells us that such ‘choices’ change as contexts change—NASA’s early space program successes, arguably a major highlight in twentieth century administrative achievement, were born out of considerably less transparency and ‘best practice’ competitive procurement than its more recent (though less remarkable) endeavors, for example (Lambright 1995, Bizony 2006); Also, Western nations used much higher levels of (now bad practice) trade regulation and protection to establish their industrial power than they now have in place (Chang 2003).

Choosing from the menu’s items (What? or Why?)

Conceptualizing governance constructs as menu items to be chosen rather than essential elements of a one best way model is, I believe, an important step to better understanding why good government looks different in different settings. I imagine it will be a helpful step for developing country governments only if linked to thoughts on how governments should ‘choose’ from the menu, however.

One can easily think of unmentioned but problematic packages of good government constructs that are likely to generate conflicting results and require explicit choice (rather than knee-jerk replication): Civil servants are meant to be politically neutral but also to lead implementation of pro-business policies; Policy must be stable but also highly responsive to changing demands in the citizenry; Government must be formalized and rule-bound but also highly responsive. A common approach to criticizing new public management involves identifying exactly these kinds of potentially conflicting elements and the complexity of choosing which ones fit a specific situation. Competition, privatization, decentralization, innovation and empowerment are examples, seen to clash with each other in practice and convey poorly in many realities. Williams (2000, 523) writes, for example (of US reform), that:

> They [reform designers] want “competition,” but oppose “duplication.” As a result, the reinventor is given no useful direction for action. Should she allow government units and programs to compete with each other in order to provide the best services? Or should governmental units be rationalized to eliminate duplication? How much duplication is too much? What considerations should lead to streamlining and which to competition?

Observing such tensions in the principles he analyzed, Simon (1946, 53) commented, “Although the two principles of the pair will lead to exactly opposite organizational recommendations, there is nothing in the theory to indicate which one to apply.” The comment is pertinent in development especially, related to fiscal management and decentralization reforms and to other effective government characteristics. Having no real basis for identifying exactly what part of the good or effective government proverb-set a government should attend to leads many countries to apply all of the proverbs at once (as I see in the study on public financial management reform in Africa already alluded to). This is potentially part of the reason why many of the development community's governance solutions end up becoming problems.[12] Governments lack a framework to know what items to choose and what not to. "What" is an important word here, reflecting the question I would pose to developing country governments trying to become effective. I believe we can answer "what" developing country governments should choose by better understanding "why" 'good government' models in more developed countries 'chose' the structures they did.

This is not to say that the two types of governments are the same. Indeed countries we currently call developing struggle with issues that model governments currently do not. Current model governments are not dealing with growth spurts or trying to put their many young citizens to work; they are in slowed growth phases managing questions about fiscal sustainability arising from the looming health care costs of an aging population. Demographic differences like these imply different demand-related challenges in key areas like health, education and infrastructural development. One can imagine these challenges resulting in different resource needs; governments in developing countries may need to build new schools to accommodate growing numbers of children, for example, while those in developed countries may be closing and consolidating schools to deal with a declining school-going population. Consider health care as well. More effective governments currently have to deal with significantly lower levels of infant mortality than developing country governments.

At some time in the past century, however, the countries with model governments had infant mortality rates similar to those challenging less effective governments today. The infant mortality challenge in Sweden and the Netherlands in 1937 (a rate of about 40) is similar to that faced by some developing countries today (including Brazil, Georgia and Nicaragua). The larger challenges Belgium and Canada were still dealing with in

[12] This reflects Pritchett and Woolcock's worry that such reforms pose a problem in development: "Simply mimicking … the organizational forms of a particular "Denmark"—has in fact been a root cause of deep problems encountered by developing countries" (Pritchett and Woolcock 2004, 193).

1937 (rates at 145 and 77) correlate with the problems governments in Angola, Azerbaijan, Kenya and Pakistan (among others) still struggle with.

I hold that the government structures today's more developed countries adopted to address these problems—that facilitated significant improvement in the last 50 years—underpin the structures they have in place today. This includes the Swedish and US health systems, both of which have facilitated material improvements in quality of life in those countries. It also included public financial management systems in the US, Germany, Australia and the others—which have accommodated economic growth, the funding of world class services, social upliftment programs, infrastructure development and (generally) sustained fiscal stability. These results are the ones developing country governments aspire to achieve, and thus these governments should be interested in what the structures and processes underlying their achievement look like. Given earlier observations and the hypothesis suggested, that structures likely look different across the good governments, one must expect a lot could be learned by asking "Why?" "Why did the world's leading governments choose different menu items when structuring themselves?" This answer can help developing countries make their own choices.

Do Good Governments Really Look Different? Analyzing PFM systems

I ask "why" good governments look different because of the earlier observation that they do differ in structure, the basis of my hypothesis: Good government means different things in different countries; Countries that are commonly successful (facilitating high income levels, social outcomes, service delivery) achieve the success through a different mix of structural and organizational characteristics. Some may challenge the hypothesis, however, and claim that the differences I mention are random or that good governments probably vary less on core 'best practice' characteristics than other countries. In short, they might argue that relative convergence around good governance criteria is higher in good governments than I suggest and that my observations fall far short of evidence.

Pre-empting such challenge, this section provides an analysis of key characteristics of public financial management (PFM) systems in good governments. PFM characteristics obviously constitute only one small corner of the good governance universe. I believe analysis of this kind must necessarily be focused on narrow areas like this, however, especially if one is to achieve the clarity and rigor about administrative situations and concepts that Herbert Simon (1947) presented as necessary to transform administrative proverbs into administrative theory.

I focus on the specific PFM domain because this stands at the heart of resource management in all governments and has broad influence on the ability of governments to provide services, manage transparently and ensure stability (key points of focus in the development domain and the broad good governance dialog). This area is also characterized by fairly consistent thinking about what good or effective practice looks like. As David Shand (then of the World Bank) noted in an undated report for the Japanese government, “There is now a general consensus among donors and partner countries on what constitutes good PFM.” OECD documents (OECD 2002), the multi-donor Public Expenditure and Financial Accountability work (PEFA 2005), and other authoritative materials emphasize common PFM goals and characteristics. The increasingly used PEFA instrument allows developing country governments to compare their system quality with ‘good practice’ in regard to 31 elements, implying both the applicability of a standard model to all countries and the existence of ‘good practice’ (ostensibly in the world’s good governments). The OECD (2002, 3) identifies seven institutional features of strong PFM systems, which they “believe play a key role in order to effectively control public expenditures” (and which they argue were directly related to the strength of PFM systems in the OECD). These key institutional characteristics are reflected both directly and indirectly in the PEFA measures. I sum them into four areas of ‘good PFM characteristics’:

i. Top-down, structured budgeting techniques (including fiscal rules, medium-term frameworks and prudent economic assumptions),[13]
ii. Relaxed input controls with ex-post performance measures,
iii. The use of modern financial management practices (including accruals, capital charges, internal audit and carry-overs), and

[13] Anderson (2006) is a good reference point for this, making the prescriptive comment that “In sum, bottom up: disaster; top down: success.”

iv. Strong budget transparency and accountability arrangements (including active legislative engagement).

With these apparent characteristics of good PFM identified, I adopt a research approach with two parts. First, to test the hypothesis that good government means a different thing in different countries, I ask if data shows that governments considered 'good' or 'more effective' have higher or lower convergence around these characteristics than others. Second, to address the question 'Why' structures differ, I look closely at data and at other research to try and explain the structural differences between good governments. This latter area focuses on the nine governments identified as scoring the highest points in the WGI Government effectiveness sample referenced in Figure 1 (Denmark, Canada, Sweden, Australia, the Netherlands, the United Kingdom, USA, Belgium and Germany). I look at four specific areas, related to the above list: Fiscal rules; Lump sum appropriations and performance management; Internal audit; and Legislative Authority.

I use data from the 2007 OECD Budget Practices and Procedures Database, which provides quantitative data in respect of 89 detailed questions about PFM systems in 38 countries.[14] The data was collected through the OECD's Senior Budget Officer's network and represents answers of these officers. It is the broadest one-stop information source in the world currently and is referenced fairly widely (see Lienert 2005, Curristine 2007, for example). There are, however, some concerns about data quality, particularly related to the lack of stringent quality control by the OECD. This necessitates careful quality control when using the research, which I conducted through triangulation of the OECD data with other primary or secondary sources—including government reports and legislation and academic articles. Even with such quality control it is possible that the information may yield debate, partly because some of the answers are mildly subjective. While noted, I do not believe this should undermine the value of my analysis. When push comes to shove data on how things are done in any administrative process is often open to at least some subjectivity and debate. I do, however, believe that the data should be

[14] Argentina, Australia, Austria, Belgium, Brazil, Canada, Chile, Costa Rica, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Peru, Poland, Portugal, Slovak Republic, Slovenia, Korea, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States and Venezuela.

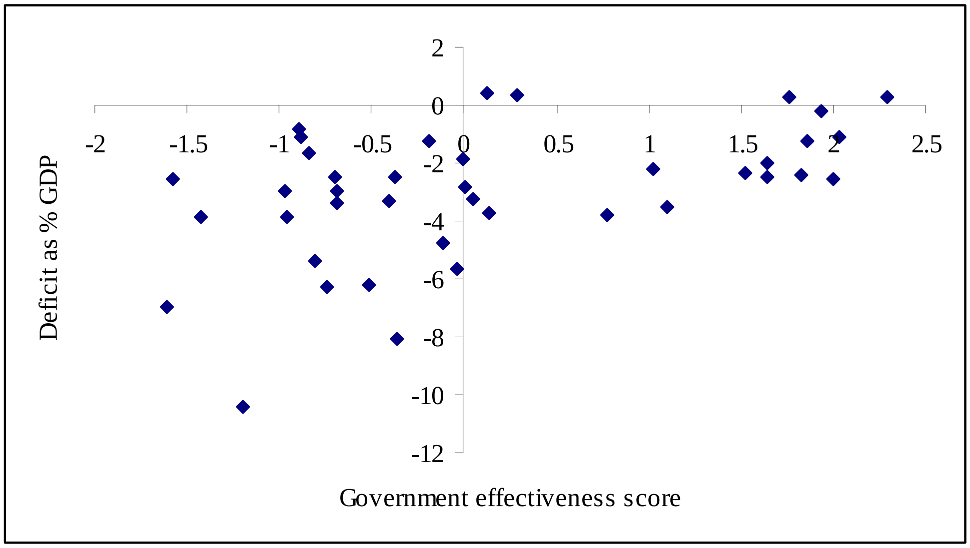
used carefully given such concern, and I thus hold back from applying anything more than basic statistical and graphic analysis.

PFM in good governments: Commonly good outcomes, but different structures

What I find in the study largely confirms my hypothesis, and provides interesting information from which to start inductively building a framework that explains why good governments look different in different countries.

I begin looking at the degree to which good governments have similar outcomes (something I argued above in saying that these governments are similarly successful). Deficits are the only PFM outcome measure commonly available across countries. Figure 2 shows average deficits across a section of countries for 1990-2006. Governments considered more effective on the WGI indicators are at the right with deficit averages below 2.5 percent on GDP over this period, compared with higher averages in many of the other governments. The figure thus suggests a convergence around better results in the more effective governments.

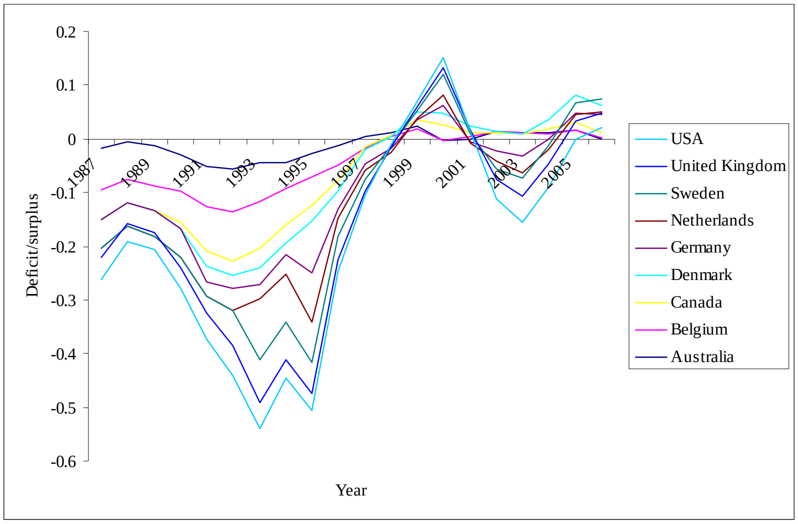
Figure 2. Average Deficits for 1990-2006



Source: World Development Indicators (accessed December 2007); OECD 2007.

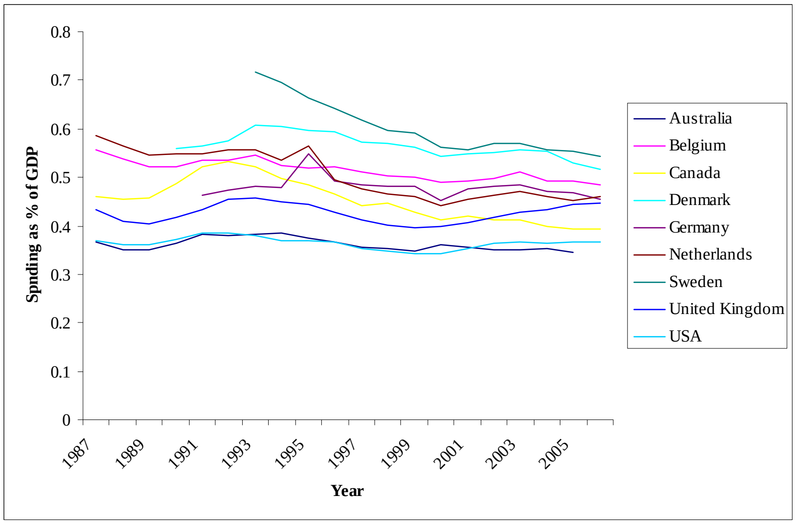
All of the good governments were responding to higher, problematic deficits in the 1970s and 1980s (and in most cases still in the first few years of the 1990s, shown in Figure 3). Economic and political pressure to control these deficits is credited as the dominant influence in favor of recent more disciplined financial management (OECD 2002). All nine governments actually recorded material decreases in expenditure in the mid-to-late 1990s as a result of such pressures (shown in Figure 4).

Figure 3. Deficit records for nine 'good governments', 1987-2006



Source: World Development Indicators (accessed December 2007); OECD 2007.

Figure 4. Public expenditure patterns for nine 'good governments', 1987-2006

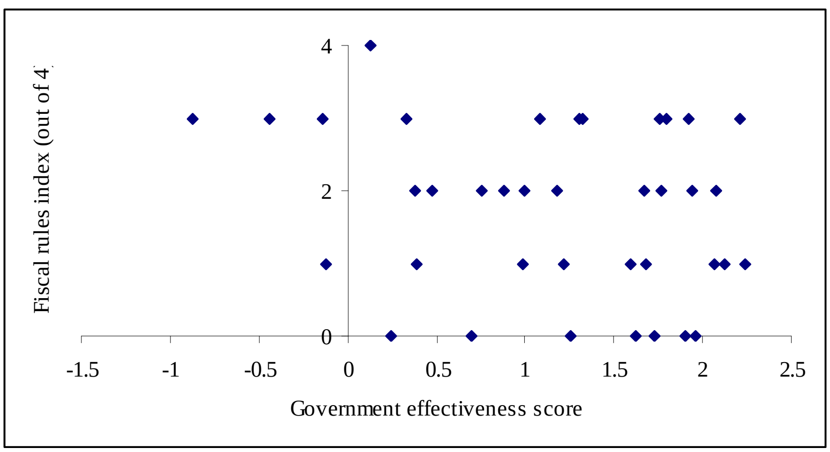


The pressure was not just for control and lower spending, however, but for lower and better spending. Various authors suggest a high level of consistency in the way the more effective governments dealt with this pressure (see Joumard et al 2003; OECD 2002, for example), arguing that they all introduced the kinds of PFM processes listed earlier as better practices. Recent information from an OECD budgeting survey tells a different story, however, of highly varied experience.[15]

The story with fiscal rules

Anyone reading work on fiscal rules in New Zealand and Europe in the mid-1990s would have believed that all leading governments had similar top-down mechanisms and that these rules offered a one-best-way solution to fiscal problems. The fiscal rule concept was quickly picked up in Latin America and other regions as a best practice mechanism to facilitate expenditure control and management. It is now part of the dialog in reform throughout the world, manifest in terms like 'deficit rule', 'expenditure rule' and even in the more operational 'budget limit'. Figure 5 shows data from the OECD database illustrating how extensive global fiscal rule adoption is. Scores range from 0 to 4, indicating the number of different rule types a country has in place (including budget balance, debt, expenditure, and revenue rules). The scores are correlated with different WGI effectiveness scores (as in Figure 1).

Figure 5. Fiscal rules and government effectiveness scores



The figure shows quite obviously that higher fiscal rule adoption is not reserved for the more effective good government models to the right. Indeed three out of the four

[15] Not just different degrees of adoption as suggested, for example, by OECD (2002).

governments in the sample scoring below 0 on the WGI government effectiveness indicator (Venezuela, Peru and Argentina) have scores of 3 on the fiscal rule adoption measure. Only one of the five governments scoring above 2 on the WGI indicator has a fiscal rule adoption measure of 3 (the other four scoring below this level). The ten countries scoring lowest on the government effectiveness indicator (all below 0.5) have the highest fiscal rule adoption measure average (of 2.2) as compared with the ten countries scoring between 0.5 and 1.5 on the WGI indicator (averaging 1.9) and the 17 countries scoring between 1.5 and 2.5 on the WGI indicator (with an average of 1.47). Paired t-tests indicate that none of these differences are significant, however, showing that good governments are not more likely to exhibit this good government characteristic than others.

Table 1 details the variation in fiscal rule adoption in the nine so-called good governments identified for deeper analysis, showing that these governments do indeed look very different.

Table 1. Fiscal Rules in the More Effective Governments

Country	**Fiscal Rule**	**Expenditure rule**	**Limits for spending requests**
Australia	No Rules		No
Belgium	Budget Balance Rule		For some types of expenditure at a chapter level
Canada	Expenditure, Budget Balance, Debt Rules	Targets nominal growth rate, covering central government only, dependent on political commitment of government	For all expenditure at chapter level
Denmark	Expenditure, Revenue, Budget Balance Rules	Targets real growth rate, covering entire government sector, dependent on political commitment of government	For some types of expenditure at a chapter level
Germany	Debt Rule		For all expenditure at line item level
Netherlands	Expenditure, Revenue, Budget Balance Rules	Targets real expenditure ceiling, dependent on formal agreement of parties in government	For all expenditure at chapter level
Sweden	Expenditure, Budget Balance Rules	Targets nominal expenditure ceiling, covering central government only, based in legislation	Other
United Kingdom	Budget Balance, Debt Rule		No, but indicative limits
United States	No Rules		No, but indicative limits

Source: 2007 OECD Budget Practices and Procedures Database

The first column in Table 1 shows that two of the nine governments (Australia and the United States) do not actually have fiscal rules.[16] The other seven have different types and combinations of rules. Column two shows that the mix of expenditure rules look quite different in the four countries that have such. In some cases the rule targets expenditure levels while in others it targets growth rates, covering central government only in some cases and the entire government sector in others, and relying on political commitment for influence in some cases, agreement between ruling parties in others, and legislation in one country. The third column features information about whether governments provide limits for budgeting entities prior to these entities submitting spending requests (often called ceilings). These are not macro fiscal rules but certainly are budget rules and contribute to the top-down formal budget structure. Again there is a range of experience, from no limits at all to indicative limits only, to limits on some kinds of expenditure, to limits for all expenditure types.

I believe this range of experience creates problems for advocates of a one-best-way model of public financial management. Some may disagree, and argue that the general experience is to have rules. However, the institutional literature so readily referenced in good governance work emphasizes the importance of institutional detail, making even differences in the mix of rules, or the specifics of rules, very important. These differences lead to different influences on behavior. Consider, for example, the different ways off-side rules impact behavior across sporting codes like football, field hockey and rugby. In some instances these rules prohibit an attacking player exceeding the last line of defense but in others they prohibit passing a certain point in the field while in others they constrain players to points behind the physical presence of the opposition. The different implications of such different rules on budgeting behavior would be amusing to consider!

Different fiscal rule influence is actually evident across the governments. A country like Sweden has found the rules (based in legislation) quite influential, and is one of the governments actually maintaining fiscal discipline in recent years. Germany, in contrast, found rigid rules impossible to enforce, because of economic challenges

[16] See OECD (2002a) for more detailed analysis of fiscal rules that confirms the information in the table. One (Australia) has had surpluses the past few years while the other (USA) has recorded deficits.

associated in part with unification. The United States actually had fiscal rules from the late 1980s and formally still has some on the books, but these are not reflected in the OECD database partly due to their perceived lack of presence and influence.[17] In both the USA and Germany social and economic challenges (the Iraq war and unification) were partly to blame for undermining the influence of rules. Other governments in the effective government sample are also experiencing pressure in this regard as they face the challenges of other "special costs" associated with aging populations.[18] These costs contribute uncertainty to the PFM agenda and make rigid rules less appropriate devices for fiscal management. One could also argue that they re-define fiscal deficit measures as PFM outcome indicators; in the face of spending challenges or economic downturns some governments might find it less appropriate to rigidly control deficits in some years, rather allowing some slack to accommodate new policies or demands.[19]

Identifying how uncertainty influences the appropriateness of fiscal rules assists one in understanding why different governments have different PFM processes in place. Hallerberg et al. (2007, 335) underscore the importance of this kind of understanding in their direct reference to unanswered questions about adopting fiscal rules themselves: "While rules seem attractive and straightforward to contain the spending and borrowing bias of profligate governments, it is by no means clear what institutional design they need and how they should be embedded into the government budgeting process to be effective." Hallerberg et al. (2007) themselves suggest other political process influences on fiscal rule adoption identifying two institutional approaches in countries attempting to enhance top down budgetary influence, delegation and contracts. The first involves a minister of finance using rules to enforce his influence and the latter involves actual contractual agreements about fiscal behavior. The authors argue that delegation is

[17] The US experience is well discussed in Schick (2005), who discusses the situation: 'The Gramm-Rudman-Hollings laws (GRH) enacted in 1985 and 1987 purported to limit annual budget deficits; the 1990 Budget Enforcement Act (BEA) capped annual appropriations and required that any legislation increasing the deficit—or decreasing the surplus—be offset. BEA expired at the end of fiscal 2002, but some of its rules have been reimposed in congressional budget resolutions. These have not been effective."

[18] Interestingly, a country like Sweden may face less pressure from such costs because of the historical role government has played in providing social welfare (something that was criticized in the deficit years of the early 1990s). This established role decreases uncertainty about future demands.

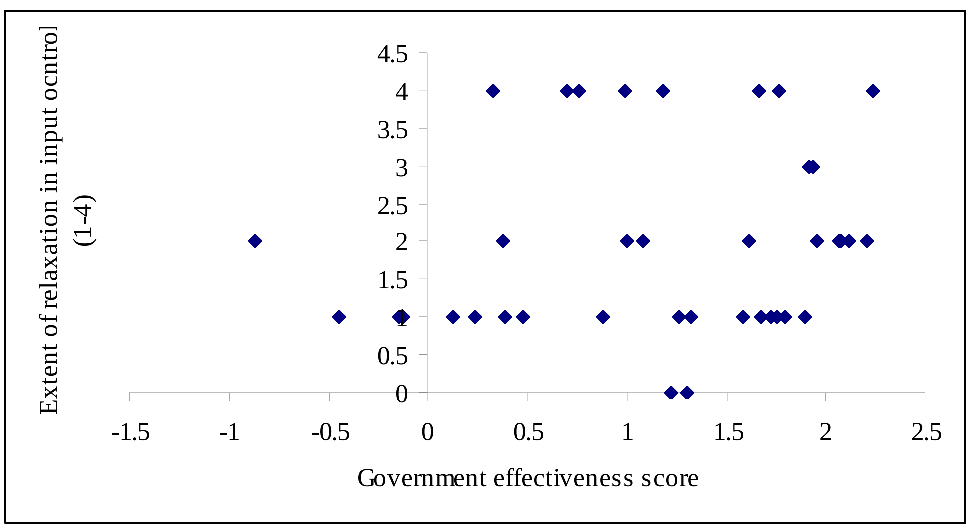
[19] In some instances this will be reflected in structural deficit measures, which should account for economic cycles, but these measures do not reflect potential social challenges that may be demographically induced, or other challenges governments may face.

appropriate for single-party governments where ideological distance and political competition is small in the party, while contracts are appropriate for coalition governments and for single party governments where ruling party ideological distance and political competition is significant. The authors emphasize the materiality of these differences: “The European framework [of rigid rules] may be less effective in countries whose budget process is shaped by the delegation approach… [and] …the two are not easily interchangeable for a given country” (Hallerberg et al. 2007, 339). The story of PFM systems, related to fiscal rules, thus emphasizes context.

The story with relaxed input controls and performance management

Figure 6 shows how the 38 governments perform in terms of the second PFM area I examined—relaxation of input controls. The OECD data asked about the degree of control relaxation, with countries scoring 1 answering “No” to having relaxed input controls in the form of lump sum appropriations: “Each agency/executive organisation receives an appropriation that specifies expenditures below the agency level.” The countries scored higher depending on whether expenditure against appropriations is left to recipient discretion. A country scored 4 if it can be characterized as: “Yes, each agency/executive organisation receives a lump sum appropriation covering both operating and capital expenditures, with a sub-limit on wages.”

Figure 6. Input control relaxation and government effectiveness scores



The figure shows that most governments have moved in some degree towards relaxing input controls, which is also the case with performance budgeting in principle; all 38 countries indicate having some form of non-financial performance orientation in the budgeting and reporting process. The figure does suggest that more effective governments at the right are more likely to have more discretionary appropriations approaches than less effective governments at the left. The average score for countries scoring above 1.5 on the WGI indicator is indeed marginally higher than that for countries scoring below 1.5 (2.11 compared with 2). Paired t-tests indicate that this difference of means is not significant, however. Similarly, even though the ten most effective governments have an average half a point higher than the ten least effective governments (2.2 versus 1.7) the difference is only significant at the ten percent level—hardly conclusive evidence that 'good governments' are more likely to be characterized by this best practice than others.

So, there is no significant evidence that good governments are more likely to adopt these mechanisms than less-good governments. But is there evidence of variation within good governments themselves? Certainly, as reflected in Table 2, which provides information on the way our nine more effective governments have acted to reduce input controls and introduce a performance orientation. The three items cited are part of a much larger set on this topic in the OECD database, summarized in recent work (OECD 2007). This work shows that most governments in the OECD have introduced performance measures and use these in some respect (as I allude to above). The work also shows significant variation in what performance management systems look like across the OECD, however. The information provided shows some of this variation, in terms of the degree to which governments have relaxed ex ante controls on budget allocations (by providing lump sum appropriations), tie appropriations to performance objectives, and reference non-financial performance in reports to the legislature.

Table 2. Relaxed Input Controls and Performance Measures

Country	**Lump sum appropriations?**	**Response to poor performance:** **A. Programs eliminated?** **B. More intense monitoring?** **C. Budget size reduced?** **D. Pay and career opportunities of head official affected?**	**Performance against objectives routinely presented to legislature**
Australia	Yes, for operating expenditures	A. Sometimes B. Almost Always C. Sometimes	Yes each ministry prepares performance reports accompanying the

		D. Almost Never	budget
Belgium	No, expenditure specified below agency level	A. Rarely B. Rarely C. Almost never D. Rarely or almost never	No
Canada	Yes, for operating expenditures, but a sub-limit on wages	A. Almost never B. Rarely C. Almost never D. Almost never	Other
Denmark	Yes, for operating expenditures, but a sub-limit on wages	A. Almost never B. Often C. Rarely D. Almost always or often	No, only on ad hoc basis
Germany	No, expenditure specified below agency level	A. Rarely B. Often C. Sometimes D. Almost never	No, only on ad hoc basis
Netherlands	Some agencies, for operating expenditure.	A. Almost never B. Rarely C. Rarely D. Almost never	Yes, integrated into main budget documents
Sweden	Yes, for operating expenditures	A. Rarely B. Sometimes C. Rarely D. Almost never	Yes each ministry prepares performance reports accompanying the budget
United Kingdom	Yes, for operating expenditures, but a sub-limit on wages	A. Almost never B. Often C. Almost never D. Almost never	Yes each ministry prepares performance reports accompanying the budget
United States	No for Cabinet and major agencies; Yes for some small agencies	A. Almost never B. Almost always C. Almost never D. Almost never	Yes

Source: 2007 OECD Budget Practices and Procedures Database

The nine governments vary in all three areas. This kind of variation is again important and interesting, especially when considered in tandem with recent work explaining why governments adopt such measures. The OECD's summary of the survey (OECD 2007, 12) addresses this issue, commenting that, "There is no one model of performance budgeting; countries need to adapt their approach to the relevant political and institutional context." The report details influences on performance-budgeting structures in a sub-section titled "Context is important" (OECD 2007, 74):

> Institutional and political factors help to explain the different country approaches, but also influence the ability of these reforms to achieve their objectives. These factors include: the nature of the political system, especially the respective roles of the legislature and the executive in the budget process; the state structure, federalist or unitary; the degree of centralisation of the public administration system; and the relative power of the MOF in the wider institutional structure.

The report also advises that adopting performance-oriented systems is difficult and should be located in a “learning process”, suggesting the type and effectiveness of such system is also contingent on the time since initial implementation and the degree to which the governing environment allows learning over time (instead of once-off, win-or-lose reform attempts). Andrews (2004) similarly emphasizes ‘space’ for reform as crucial to performance-based interventions in US States, arising in some environments and not in others. Environmental influences like these emerge from various factors, such as those mentioned in the OECD report. Pollitt (2005) identifies others more specifically, finding through case study research that: (i) task types influence whether performance management is embraced and effective; (ii) majoritarian, single party governments institute performance-based changes more readily than others; and (iii) more individualistic and risk-accepting cultures best accommodate the use of devices like performance-related pay and transparent public reporting of targets and achievements. Consensualist countries are likely to accept performance measurement as a legitimate modern technique but use performance information in a less direct, more negotiative manner, which leads Pollitt (2005, 38) to comment that,

> In such circumstances [more consensualist situations] hard-edged performance steering may threaten important relationships and interests—not least those of the powerful public service unions or political parties that are allied to them or to certain agency missions.

These observations once again suggest that there are appropriate reasons for variation in inter and intra government structures related to tasks being undertaken, politics and culture. The lack of performance based contracts or pay may not denote ineffective government, just different government context. Context matters, as Curristine (2005, 124) notes in discussing performance budgeting information derived from the 2003 OECD Budget survey, “These reforms have been introduced into an existing institutional context and budget process.” She notes that, “In most cases, they have not completely transformed or shifted systems away from inputs” suggesting that, in the short run at least, the new processes actually run in parallel to the old.[20] Brinkerhoff and

[20] Andrews and Hill (2003, 126) note this in a study of performance budgeting in the US States: ‘In essence, PBB reforms involve the introduction of new rules and norms to drive budgeting behavior, which have to overcome the influence of pre-existing rules and norms (usually associated with incremental and program budgeting systems) in order to influence behavior.”

Goldsmith (2005, 199-200) call this "institutional dualism" which complicates further the nature of systems in countries observed—because there are different combinations of new and old systems likely in all domains it is very difficult to understand the true institutional qualities in place.[21] Curristine (2005, 140) recognizes this important issue by stating that, "Reformers do not begin with a blank sheet; performance indicators and targets are introduced into existing and established systems of accountability and control, which have both informal and formal components." Again referring to the 2003 OECD survey she notes further that the question reformers and observers of government effectiveness should concern themselves with centers on establishing the appropriate mix of systems for specific countries:

> Traditional accountability mechanisms designed around input controls have not been extensively relaxed in some countries. Accountability for performance will co-exist alongside traditional mechanisms. The issue is not about completely replacing input controls with outputs/outcomes, it is more a question of how to find the desired mix of mechanisms within the *[individual country]* system (Curristine 2005, 140, italics inserted).

Emphasizing the importance of finding a desired mix within a specific country once again explicitly refutes any one-best-way model of government effectiveness. It also yields the few studies aimed at identifying what the systems should 'fit' around vitally important.

The story with modern financial management practices—internal audit

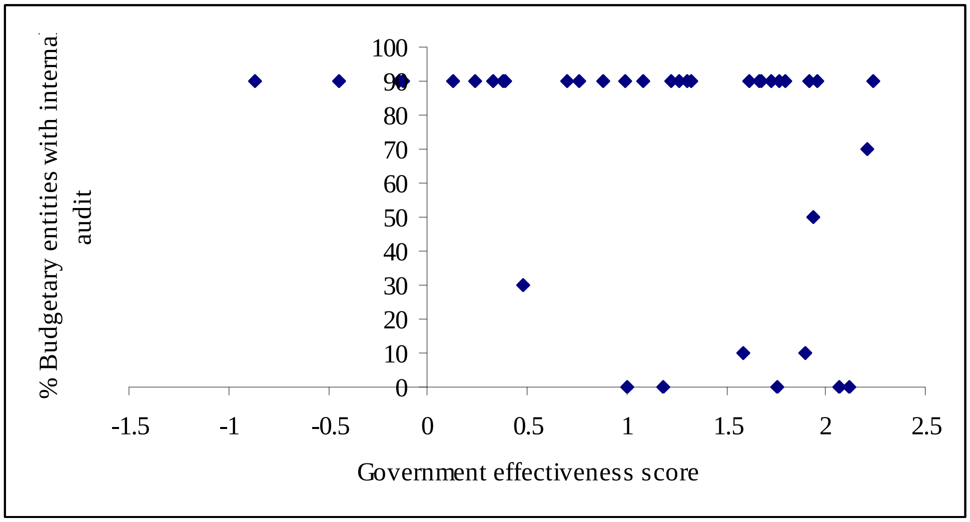
Figure 7 illustrates arguably higher levels of overall convergence on a better practice characteristic than either of Figures 5 and 6. The figure reflects the percentage of line ministries that "have internal audit units." The data has not been quality checked, given very limited access to information on this issue, and one should be concerned about this because of the many different interpretations of internal audit around the world.[22]

[21] This is a problem for clean, one-best-way type theory and data-heads gathering information about such. How do you develop clean theory or gather clean data about the extent of a practice's implementation when such is implemented in the presence of an existing practice, is often interrupted by the introduction of new practices, and has formal and informal dimensions? The common approach is to look at legislation and see whether innovation A or B is in place, which is obviously problematic.

[22] Some countries interpret this function as the equivalent of inspectorates, for example, and in some Eastern European settings the internal audit office is literally the remnants of the KGB. In the countries identified here one can expect very significant differences in who the internal auditors are, what they do, etc.

However, taking it at face value, one must first be impressed at the number of countries apparently covering their ministries with what is a fairly modern financial management practice.27 out of 38 countries noted coverage between 80 and 100 percent (which I show as 90 percent in the figure). Only six identified not having internal audit units in line ministries or having units covering less than 20 percent of these ministries.

Figure 7. Internal audit in line ministries and government effectiveness scores



For the sakes of this paper, the more interesting observation is the fact that low internal audit adopters are in the more effective governments. The average coverage for governments scoring below 1.5 on the WGI government effectiveness indicator is 75 percent, compared with 59 percent for governments above 1.5. The difference is actually most glaring for the bottom ten WGI scorers (who score below 0.5 on the government effectiveness measure but have an average internal audit coverage of 83.3 percent) and the top ten WGI scorers (all scoring above 1.8 on government effectiveness but with less than 60 percent internal audit coverage in line ministries). Paired t-tests show that the differences in means I note are all significant at the 1 percent level. This suggests for the first time that good governments may be different to less-good governments. But note the direction of the difference: Good governments are less likely to adopt the better practice internal audit characteristic than others!

The OECD data does not allow deeper analysis of differences in adoption between the good governments themselves, but the range in ministry coverage across the nine governments is from 10% (Belgium) to 90%. One recent study is tremendously useful in understanding differences at a deeper level, however. Sterck and Bouckaert (2006) study internal audit entities in six OECD governments and purport to find "similarities in legal requirements, organizational structure, and future challenges." Consider, however, the differences they actually relate in this six country sample (which includes Australia, Belgium, Canada, the Netherlands, Sweden, the United Kingdom, and the United States): Some governments legislate the need for internal audit, while others do not; While most governments have internal audit directly in budgetary entities, there are important exceptions that provide internal audit through central entities; Some governments have central standard-setting entities for internal audit while others do not; Internal audit entities in all governments produce similar reports (reviews of internal control systems, financial audits, legislative compliance audits, and performance audits) but the time spent on the various types is very different (as is time spent on assurance and consulting activities); The ratio of civil servants to internal auditor varies significantly, from 247 in the United States to 752 in the Netherlands and 979 in Canada.

Instead of emphasizing the supposed similarities, the article could more usefully have examined reasons for what are really notable differences, some of which it even alludes to. Consider, for example, the differences in institutionalization of the internal audit profession (in the formation of professional institutes in the United States in the 1940s[23] versus in many European countries like the Netherlands and Belgium in the 1970s[24]). This explanation is reflected partially in the article's observation that human resource organizations in governments must be able to attract and retain talent but speaks to a larger social and cultural context in which such talent is produced. And consider the fact that internal audit was legally recognized and mandated as a public sector function at very different times in the governments—1978 in the United States and 2001 in the Netherlands. The article emphasizes the importance of establishing a legal mechanism

[23] The USA Institute of Internal Auditors was founded in 1941, although the internal audit function was entrenched in industry in the 1930s.
[24] The Institute of Internal Auditors' (IIA) Benelux Chapter was established as a professional organization for auditors in 1977, and had 70 members in its first year. Belgium had its own institute in 1994.

but does not discuss how time since passing legislation might affect internal audit coverage, activity and influence. The article also mentions the importance of managerial acceptance of internal auditing as a function (especially the modern version) but does not allude to what this acceptance hinges on—cultural awareness (and the professionalization issue already referenced), social and economic pressures to manage risks, risk and uncertainty avoidance, perhaps?

The story with accountability structures—legislative authority

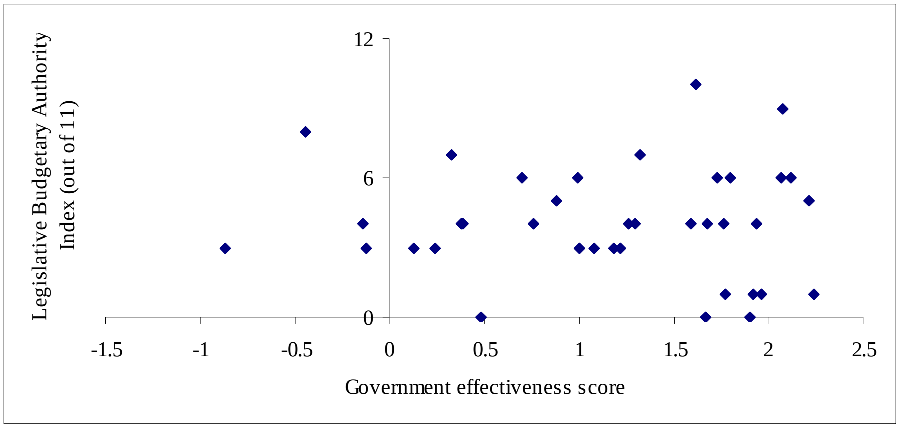
The budgetary authority of the legislature is also an issue raised in recent good governance work, especially pertaining to public financial management. The PEFA instrument used to assess the 'performance' of PFM systems in developing countries devotes two of 28 indicators to this issue, noting that government accountability is undermined where the legislature does not effectively exercise its power. PEFA notes that the legislature should have authority over budget review, in-year adjustments to the budget, as well as review of financial reports and audits. The OECD database asks whether legislatures do indeed have such authority in these areas, as well as whether they have staffs to assist and whether the time allowed for review is sufficient for the exercise of authority.[25] Figure 8 shows a 'legislative authority index' calculated on the basis of answers to these questions in the 2007 survey. Scores on the exact same index are provided for 2002 in Lienert (2005).

One should immediately observe that some governments score extremely poorly on this index—0 or 1 out of 11! One should also note that these low scores are at the high end of the government effectiveness scores. Five of the countries scoring the eleven highest scores on the government effectiveness indicator scored 0 or 1 on the legislative

[25] The precise questions and highest scores for each are: (1) Does the legislature approve each year, an updated budget strategy covering at least 3 years (including the new budget year)? (2 points, depending partly on extent of legislative review); (2) Does the legislature have unlimited powers to amend the draft budget proposed by the executive? If there are any restrictions, how severe are these? (3 points depending on severity of restrictions); (3) How many months does the legislature receive the draft budget from the executive? (2 points, depending on time); (4) Does the legislature have a specialized budget advisory/research organization attached to provide budgetary analyses independent of the executive? (2 points, partly dependent on size of unit); (5) Does the legislature oblige the government to implement its expenditure programs exactly as adopted? If not, what restrictions are there on the governments powers to modify the budget during implementation? (2 points, partly dependent on severity of restrictions).

authority index. In contrast, only one of the weakest eleven governments (scoring the lowest WGI scores) recorded 0 or 1 on the legislative authority index.

Figure 8. Legislative budgetary authority and government effectiveness scores



The average scores for governments scoring above and below 0.5 on the WGI effectiveness indicator are close, at 4 and 4.1, and a paired t-test shows the two means are not significantly different. A paired t-test also shows that the means of the top and bottom ten countries are also not significant, although the mean of the weaker group exceeds that of the top (4 in the bottom ten and 3.9 in the top ten).

Once again, 'good governments' are not found to be more likely to adopt a 'better practice' PFM characteristic than other governments. But once again we ask: Is there more evidence that the good governments actually differ amongst each other? And again, the answer is yes. Legislative authority varies quite significantly across the effective government group, as shown in Table 3's scores (the same as those shown in Figure 7). With a potential score of 11, one sees variation in the nine more effective governments, with Australia, Canada and the United Kingdom at 1 and the United States at 10. The different contexts yield different power struggles, demand for different kinds of budget information and—in the words that title a prominent article on this topic—"shape policy and budgets" differently.[26]

Table 3. Different Kinds of Legislative Budgetary Authority

Country	Type of government	Legislature's budgetary

[26] This is the title of Oppenheimer's 1983 article.

		authority
Australia	Westminster	1
Belgium	Parliamentary monarchy	4
Canada	Westminster	1
Denmark	Parliamentary monarchy	5
Germany	Parliamentary republic	4
Netherlands	Parliamentary monarchy	6
Sweden	Parliamentary monarchy	9
United kingdom	Westminster	1
United States	Presidential	10

Sources: OECD 2007; Lienert 2005

It is important to note that the variation in Table 3 has implications for the broader budget dialog and process in place in the nine governments. Highly engaged legislatures can be a significant 'brake' on executive budgetary freedom, having a domino effect on other processes in place. A counter argument suggests that stronger legislatures can foster a pro-spending bias, which was particularly argued in Sweden's case in the late 1980s (Wehner 2007). This counter focused mostly on the influence legislatures can have in adjusting budgetary allocations, however, which would only make up 3 points in Table 3's authority measure, leaving 8 points focused on the accountability-enhancing aspects of legislative engagements. The fact remains that some more effective governments score significantly less than 8 and that the variation in scores is still evident.

The observation further weakens any one-best-way argument about what good or effective government looks like and suggests the importance of examining context to understand what kind of system a country needs. Table 3 alludes to one important contextual aspect that seems to define the level of legislative authority that may be possible or appropriate to a given government—its type. The table suggests that presidential governments like the USA tend to have higher levels of legislative authority, while parliamentary governments (and Westminster governments in particular) have lower levels. Lienert (2005) argues that this may not in fact be as strong a pattern as the table suggests, partly because most government types are now hybrids. Other important influences relate to broader political engagement of citizens and civil society demand for information and for legislative activism. Where these factors vary, one can expect variation in government structures, which seem appropriate and necessary for contextually-significant effectiveness.

One can also expect differences in acceptability of certain practices that define dimensions of good or effective government, like corruption and responsiveness. Various observers explain pork-barrel spending in the United States as a function of the peculiar government type and legislative strength, for example. Most decry the practice, as referenced by Brinkerhoff and Goldsmith (2005, 213):

> Pork-barrel spending is almost always viewed critically, as the embodiment of bad governance … [It] not only tends to bust the government budget but also leads to excessive spending on local projects relative to projects in the national interest.

Brinkerhoff and Goldsmith go on to suggest, however, that this kind of practice may have some appropriateness in context, facilitating broad resource allocation decisions in complex negotiation environments and contributing to overall political stability:

> [G]overnment funds have to be spent for various government projects in different locations. Some method is needed to allocate these funds, and bargaining among politicians may be as good as many others. In large and diverse societies such as the United States, political pork is a vehicle for placating different regions and ethnic groups. Often, the widening of a local road, the dredging of a local waterway, or a similarly mundane act adds to political legitimacy and thus, indirectly, to democratic governance.

Why Good Governments Look Different; Towards Contingent Thinking

The data and discussion around Figures 5, 6, 7 and 8 amount to evidence supporting the hypothesis that good government means different things in different countries. It reinforces the idea that countries that are commonly successful (generally and in PFM) (facilitating high income levels, social outcomes, service delivery and fiscal stability) achieve the success through a different mix of structural and organizational characteristics. In line with the metaphor I introduced earlier, the good governments analyzed certainly seem to treat best practices as items on a menu, and they seem to choose (or organically adopt) certain items and not others. The data and discussion can also help us inductively identify some reasons why this is so (in answer to the question I asked earlier) and lay a foundation for developing a contingency framework emphasizing the fit between government structure and governing context.

Why a contingency framework?

I suggest a contingency framework because the story discussed so far implies that, "Organizations [and governments] confront varying environments that pose different challenges for them" and that "[Organizations] will, or should in the interests of effectiveness, adapt their structures to these environmental requirements" (Scott 1987, 103). These comments are introduced in Richard Scott's discussion on contingency theory, which insists that there is no single best way to structure an organization but, "Rather, what is the best or most appropriate structure depends—is contingent—on what type of work is being performed and on what environmental demands or conditions confront the organization" (Scott 1987, 210).

Strong legislatures that achieve political consensus through pork-barrel politics may be more prevalent and appropriate in some places than others, for example, because of specific differences in social conditions. Just as deficit spending may be more acceptable in some more effective governments than it is in others, as shaped by different economic challenges. And just as distancing the legislature from the public finance domain may be OK in some settings and problematic in others, given different democratic processes. The evidence shows that governments exhibit variance in these areas not just because they are materially more or less effective, but because they face different environmental demands and conditions. Governments with similarly high levels of effectiveness seem to reach such status precisely by matching different practice combinations together.

In line with Scott, foundational research in the contingency tradition argues that the best way to organize depends on environmental conditions faced by an organization, its scale, and task. Some describe this as a common-sense approach to thinking about organizations. Its usefulness and impact in public sector research in the 1980s was questioned, however, especially in the United Kingdom. Research at the time was considered overly deterministic and simplistic, focused on structure as the only mediating link between the organization, its output and its environment; and failing to deal with contingencies related to more complex factors like culture and intra-organizational power. Prominent studies generated mixed findings about the influence of contingent factors on organizational structures and a growing research field emphasized that managers actually exercise strategic choice about structure. This undermined the deterministic character of contingency theory and ultimately its attraction to research. Dunsire (1995, 22) described the approach as, "A seemingly common-sense theory that never delivered."

The approach is still widely used to better understand many domains, however, including government.[27] It has arguably become less deterministic and more descriptive, considers a broader array of contingency factors and accepts that structure is influenced by strategic decisions managers make within intra-organizational political and power contexts. Various studies, including those in the public value tradition, also emphasize organizational task or challenge as an additional mediating link between the organization, its environment and output. Organizations are seen to respond to environmental threats by adjusting and adapting tasks or challenges (or value creation goals) *and* structures.

Contingency-based research indeed holds many applied arguments that could help better understand some of the observations made in the discussion of variations in the public financial management systems of good or more effective governments. Drawing particularly from contingency research into variations in management control systems allows the following kinds of theoretical propositions (See Chenhall 2003):

- The more hostile and turbulent the external environment (manifest especially in economic downturn and pressure for governments to decrease deficits) the greater the reliance on formal controls and an emphasis on traditional budgets (like top-down mechanisms, fiscal rules and such).
- The more uncertain the external environment (reflected in new spending demands associated with "special costs" like anti-terrorism campaigns and aging populations) the more open and externally focused the financial management systems (and the less appropriate rigid, formal controls).
- Where financial management systems focused on tight financial controls are used in uncertain external environments (with new, complicated spending demands) they will be used together with an emphasis on flexible, interpersonal interactions (resulting in more flexible fiscal rules and more ex post, performance management mechanisms).

These propositions are certainly helpful in thinking about how context influences government challenges and structures. They are but a few of the theoretical ideas

[27] For examples: Rondinelli et al. (1990) used contingency theory to examine education reforms in developing countries; Lu and Facer (2004) adopt a contingency approach to look at the influence of local government environment on the adoption on budget reforms.

emerging in contingency theory, however, which offers much more to those thinking about government effectiveness.

What are good government (PFM) structures contingent upon?

In the spirit of contingency theory, one can inductively identify various contextual factors that seem to influence the nature of PFM structures in the good governments, as analyzed earlier. These include the economy, entrenched political institutions, social structures and culture, and the governing challenges arising from demographic change. These factors influence conceptions of effectiveness in two basic ways: (i) They affect what governments focus on and the kind of outcomes governments are challenged to produce; (ii) They directly and indirectly impact on the structures and processes governments adopt to meet challenges.

The first kind of influence is seen in the observation that fiscal consolidation in the nine governments was a reaction to economic pressures growing in the 1970s, 1980s and early 1990s. All of the governments responded to negative effects of turbulent, hostile economic settings and deficits on the economy to emphasize fiscal discipline as a goal of public financial management in the 1990s. But governments balanced this goal and others in different ways, and allowed the economic pressure to shape their structures differently.

Sweden's response to the double digit deficits of the early 1990s was severe, and the government has stringently adhered to its fiscal discipline objectives (maintaining its surpluses in recent years and legislating fiscal rules, for example). Germany and the United States have balanced this objective with other challenges, arising from what Schick (2005) calls "special costs"—to do with unification, the fight against terrorism and other demands. Deficits have been higher and recurring in these governments but not in Sweden, partly because of this different balancing requirement and the impact it has had on what the governments now consider good outcomes and good processes.

Recent demographic pressures in OECD countries, related to aging populations, seem to be creating new "special costs". These are still quite uncertain but are already seeing most governments balancing their fiscal austerity focus with recognition of new spending and allocation demands. Interestingly, a country like Sweden might face less special costs because of the infrastructure it developed under its erstwhile welfare state model—an observation akin to Steve Radelet's finding that previously socialist developing countries are absorbing global health funds more effectively than other countries because of their legacy systems (Radelet 2007).

All of the governments are concerned with the different kinds of financial management outcomes identified in the good governance literature: fiscal discipline, allocations quality and efficiency (noted earlier). These outcomes do not always receive equal attention, however, with government focus influenced by the economic and social challenges the budget needs to address. Environmental factors will determine different outcome combinations appropriate for different settings. Higher deficits might be appropriate in the United States as it responds to social demand for greater security expenditures (as approved by its Congress) than they are in Sweden, where the memories of economic downturn still linger (such that the legislature decided to institutionalize rules against deficit spending). This thinking leads to the argument that if the United States financial management system stringently held to deficit targets at the expense of higher security expenditures, it should be considered ineffective in meeting the challenges of its day. This is not to say that the government should ignore fiscal discipline, only that it balances such concern with that of new spending.

The different budgetary challenges facing the nine governments go some way to explaining why systems and processes look different. Sweden's distinct austerity focus is well suited to an aggressive approach to reorganization and control, reflected in legislatively enforced fiscal rules. The country's adoption of performance management also makes sense in this context as it facilitates better spending under the reduced umbrella. The United States has been dealing with much more uncertainty, associated with its "special costs"—a situation unsuited to unbending fiscal rules. In both governments one could argue that differences in systems thus reflect the different operational requirements for meeting different goals. But the above discussion suggests that processes and systems reflect other influences as well. The political structure of a government will determine which kind of fiscal rule is most appropriate, for example. Strong top-down executive agents (notably Ministers of Finance) can accommodate less formal control systems, but weaker executives (or coalition arrangements) require highly formalized PFM structures. Cultures within government might influence whether performance management is appropriate, with consensual cultures limiting the use of performance information for pay decisions, for example. Social structures might have an impact as well, with the degree of normative development in a society influencing the space for change. Some governments can adopt internal audit more readily because the internal audit profession is more established in its private sector, for example, facilitating access to professionals in the area and enhancing acceptance of the profession itself. The human resource capacity of a nation might be the defining contingency factor upon which organizational structure most depends. Without internal auditors one simply cannot have internal audit in a government. Government tasks might influence the kind of PFM structure needed. Sensitive tasks might require less transparency, more direct service delivery might allow for more direct performance management, and smaller task units might allow for less formal control and greater use of performance management (especially where these units are closely located to end users).

I combine these thoughts, built on observations from the earlier analysis, in the following set of recommended hypotheses for choosing PFM structures appropriate to the context:

> H2: Governments that can reference a memorable meltdown (like Sweden), defined either by a severe economic or political failure in the last generation, are more likely to have stringent controls in place (like fiscal rules).
>
> H3: Governments facing the uncertainty of special costs are more likely to have lower levels of control and higher levels of flexibility in their systems.
>
> H4: Governments with stronger political systems can accommodate less formalized control than others, because of a higher political ability to control.
>
> H5: Governments with consensual internal cultures can accommodate lower levels of performance management than governments with more individualistic internal cultures.
>
> H6: Broad social culture influences the kinds of structures a government can introduce, influencing the normative fabric in which change occurs. This is particularly relevant for structures emerging from professions that must exist in a society to facilitate effective transfer of norms required to make structures effective.

H7: Countries with low capacity can accommodate lower levels of structural innovation in governments, necessitating basic systems.

H8: Government entities providing different services should have different structures, reflecting task sensitivity, the degree to which tasks are performance oriented, and the degree to which users influence task production.

These hypotheses are recommended purely for discussion and still need much more flesh. I similarly suggest a simple ‘first-draft framework’ of contingency influences on government structure in Figure 9. It shows that environmental factors will influence government focus, which will imply the need for different structures and processes, which are also themselves influenced by environmental factors.

Figure 9.First Draft Contingency Framework of Government Structure, specific to PFM

Government focus (outcomes mix):
- Fiscal discipline, balance
- Allocation demands
- Efficiency

Environmental factors:
- Economy
- Demographics
- Political Institutions
- Social structures

Structures and processes:
- Top down systems
- Performance management
- New technologies
- Transparency, legislative engagement

The model is structured as a triangle to suggest the application of Mark Moore’s strategic triangle (Moore 2000). The triangle presents the applied management problem in public and non-profit organizations, centered on creating public value. Effective management requires determining the contextually appropriate value orientation and facilitating an operational structure that will facilitate creating such value, given environmental constraints. Figure 9 reinforces the earlier suggestion that effective government comprises two similar steps: (i) Determining the appropriate outcomes mix to focus on (given the environment); and (ii) Establishing structures and systems required to generate these outcomes (again given environmental constraints).

Conclusion

I fear that the simple framework provided in Figure 9 falls short of a robust model researchers can use to assess why governments are structured as they are. I do believe it is a useful mechanism to use in building such a research agenda, however, and in working with developing countries to think about 'what' items they should choose from the good governance menu. Suggesting such framework was one of the goals of this paper. The other was to provide some structured analysis of the idea that good government means different things in different countries.

I believe the paper also falls short of conclusively proving this hypothesis, although it shows sufficient evidence in the area of public financial management (PFM) to warrant future attention. Governments we would all comfortably call 'good' do not seem to have a stronger taste for better practice characteristics in this area than other governments and actually seem to have characteristics that vary amongst each other.

These findings should challenge the current predilection for one best way models of PFM systems and government structures in general. These models are being foisted on developing countries with the implied promise of development, but there is no evidence that the developed countries themselves uniformly adopt the model elements. Countries that come out reflecting 'good government' according to the influential good governance indicators actually look very different, varying on the very dimensions that indicators imply are central to good government.

This paper argues that the developing community should pay more attention to this variation in its work on governance. Such attention will require closer focus on the importance of context in shaping governments. The framework presented here allows such focus, advocating a simple contingency model proposing that government structures should not be the same in all places but can also not be left to random choice. The appropriate structure depends—is contingent—upon what issues governments face and what their environment looks like. The approach will allow development to embrace the fact that variation characterizes this world more than most other things, and ensure that the governance agenda does not become a political and administrative version of the now discredited Washington Consensus of macroeconomic adjustment.

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