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What are budgeting's purposes? Comments on OECD's principles of good budgetary governance

by
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OECD's Recommendation of the Council on Budgetary Governance makes a substantial contribution to discussion of good budgetary practice by synthesising much common understanding while updating it to recognise some lessons from the experience of the Great Recession. Yet its implicit understanding of the purposes of budget processes has weaknesses both as policy and political analysis. The policy understanding overemphasises the importance of budget totals relative to budget details. The political understanding is as top-down as the policy view. Although budgets might be seen as contracts between citizens and the state, in a representative system they are better seen as treaties among citizens negotiated through politics. The Recommendation barely recognizes the existence of and challenges from political conflict.

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1. Introduction

A lot of research in the budgeting field, as in much of public administration, has been reformist or prescriptive.[1] In some cases, analysis and prescription have, directly or less so, led to changes in practice. The progressive era work by the New York Bureau of Municipal Research defined and provided impetus for creation of municipal budget systems in the United States. The Bureau movement and President Taft's Commission on Economy and Efficiency helped develop the ideas that led to the President's Budget.[2] More recently, Roy Meyers rightly reports that "reform advocacy, by the General Accounting Office in particular", contributed to passage of the Chief Financial Officers Act of 1990 and the Government Performance and Results Act of 1993.[3] At a time of great concern about budgets present and future, the Organisation for Economic Co-operation and Development (OECD) has now produced a new prescription, in the form of a *Recommendation of the Council on Budgetary Governance* (OECD, 2015) which identifies "ten principles of budgetary governance".[4]

The OECD's principles are likely to be influential around the world. They were generated under the direction of the Working Party of Senior Budget Officials, which since 1980 has brought together budget directors and other top officials involved in budgeting from virtually all OECD countries.[5] The SBO group works closely with the OECD's Budgeting and Public Expenditures Division,[6] and its membership ensures that any research and recommendations will be spread across the budget policy networks in virtually all OECD member states. More immediately, the process ensures that this Recommendation already represents the thinking of leading budget professionals in those countries. The OECD's prestige and its role as a generator of governance standards more generally,[7] positions it as a central source for budgeting advice among governmental elites in rich democracies.[8]

The provenance and intent of the principles is explained in the final document's introduction:

> "The objective of this Recommendation is to draw together the lessons of a decade and more of work by the OECD Working Party of Senior Budget Officials (SBO) and its associated Networks, along with the contributions and insights from Public Governance Committee and other areas of the OECD, as well as those of the international budgeting community more generally. The Recommendation provides a concise overview of good practices across the full spectrum of budget activity, specifying in particular ten principles of good budgetary governance, which give clear guidance for designing, implementing, and improving budget systems to meet the challenges of the future. The overall intention is to provide a useful reference tool for policy-makers and practitioners around the world, and help ensure that public resources are planned, managed and used effectively to make a positive impact on citizens' lives."[9]

The OECD principles should be of interest to all budgeting practitioners and scholars, simply because they represent the considered opinions of leaders within the international budgeting community. Yet they also provide an opportunity to reflect and ask questions.

Textbooks on government budgeting frequently include a discussion of the purposes or functions of budgeting, or the standards by which budget processes should be evaluated.[10] Examples include democratic accountability, transparency, various definitions of "balance", increasing efficiency, setting priorities, economic management, responsiveness (with varying senses of to what or whom) and stewardship. The varied definitions can overlap; thus "stewardship" in one framework logically includes elements of "balance" in another. Beliefs about how these various standards or purposes are met will also vary. For example, between the late 1970s and 2008, American economists came to increasingly define the economic function of the national budget not as managing demand but as increasing national savings. Around September of 2008, stimulating demand suddenly regained their attention.[11] Regardless of the details, any evaluation of budget processes will begin from some sense of what budgeting should and can accomplish.

The Recommendation represents a broad view of those purposes, including shaping economic performance, integrity of implementation, notions of the relationship between citizens and the state, citizen participation, and efficiency. Yet in a few ways the principles appear to derive from views that may not be realistic, or may fit better in some political systems than in others. They especially suggest a view of the relationship between the government and the public – or the state and its citizens – which does not recognise political disagreement either among citizens or within the government. This seems peculiarly inappropriate for budgeting in a representative system, since such systems are required to process and cope with disagreement.

Stated most briefly, those principles are in Box 1.[12] In the document, each is presented with about a half-page of commentary in the form of further assertions and elaborations. Readers of this article should please read the document itself to get a fuller appreciation of the logic for each principle. Here, I will focus on a few themes.

Box 1. **OECD Principles of Budgetary Governance "at a glance"**

1. Manage budgets within clear, credible and predictable limits for fiscal policy
2. Closely align budgets with the medium-term strategic priorities of government
3. Design the capital budgeting framework in order to meet national development needs in a cost-effective and coherent manner
4. Ensure that budget documents and data are open, transparent, and accessible
5. Provide for an inclusive, participative and realistic debate on budgetary choices
6. Present a comprehensive, accurate and reliable account of the public finances
7. Actively plan, manage and monitor budget execution
8. Ensure that performance, evaluation and value for money are integral to the budget process
9. Identify, assess and manage prudently longer-term sustainability and other fiscal risks
10. Promote the integrity and quality of budgetary forecasts, fiscal plans and budgetary implementation through rigorous quality assurance including independent audit.

2. Economic management: Standards and scope

In drafting the principles, the SBO emphasised economic purposes of budgeting. Managing budgets within clear fiscal limits is the first principle listed. The preamble to the Recommendation states that, "sound and appropriate macro-economic management including responsible fiscal policies and further structural reforms are all essential for achieving robust, resilient and inclusive growth, taking into account rising inequality", and that, "as a primary instrument for implementing fiscal policy, the budget thereby has a significant influence upon the management of the economy as a whole".[13] It also mentions that the content is motivated in part by "the extensive body of analysis that has been conducted under the aegis of the OECD and other national bodies and international organisations on matters relating to budgetary governance, and in particular upon the analytical insights and researches arising from the global economic and financial crisis that has prevailed over the past number of years across many Members".[14] In the presentation at the June, 2014 SBO meeting, the principle of managing within clear, credible and predictable limits for fiscal policy was described as "the starting point", for "without it, all other policy objectives suffer".[15]

The term "fiscal policy", however, could have different meanings, representing different purposes. In economic terms it once meant the effect of the budget balance on aggregate demand; and that meaning is evident in the text and other OECD work. But some might read "clear, credible, and predictable limits for fiscal policy" as equivalent to "balance" – a term that is not directly in the principles. Balance here would not mean equal taxes and spending, but a combination of spending, revenues, and borrowing that is predicted, desired, and in some sense stable.

As Irene Rubin writes, "a budget may technically be balanced by borrowing".[16] In the European Union context, and thus as a broad norm among OECD countries, limits on fiscal policy (and so an appropriate balance) have come to mean something like the Maastricht standard: that deficits not exceed 3% of GDP and debt not exceed 60% of GDP.

The fiscal crisis revealed that sometimes economic policy should violate these norms, so the principle as stated is general enough to allow both prudent household management and responsive macroeconomic management. The preamble defines "sound fiscal policy" as "one which avoids the build-up of large, unsustainable debts, and which uses favourable economic times to build up resilience and buffers against more difficult times, so that the needs of citizens and stakeholders can be addressed in an effective and enduring manner".[17] The Recommendation thereby defines a leaning against deficits as a form of prudential conservatism: that approach in good times *would limit the risks of running* (and so enable) counter-cyclical deficits in bad times.

One might have some doubts as to whether this prudential approach is always either necessary or effective. The main risk of deficits is that they would lead to large interest costs, due both to the increase in principal and market demands for higher interest rates. The cases of Japan and the United States (which were relatively "bad actors" before the slump but have borrowed rather easily) and of Spain (the reverse), suggest that budgetary caution before a slump is not the only determinant of budgetary running room during it.[18] Nevertheless, the recommended approach resembles traditional Keynesian economics.

The Recommendation therefore provides a much more moderate view of the economic purposes, or goals, of budgeting than is normal within the US federal budgeting establishment. Many former senior US budget officials from both parties, gathered in the Committee for a Responsible Federal Budget, have elevated the norm of deficit control far above all other values.[19] The Committee even suggested, in 2011, that controlling deficits in 2025 was just as important as avoiding default on the federal debt that year.[20]

Principle 9 also can be compared to the rhetoric common within the U.S. budgeting establishment today. It highlights the issue of longer-term sustainability, which is frequently framed in the United States as an "entitlement crisis" caused by projected costs of Social Security and Medicare.[21] But the Recommendation frames the basic concern as "fiscal risks", including "contingent liabilities", categories that logically include factors such as housing bubbles or unstable banks. These are matters that the budget establishment in the United States would prefer to de-emphasise, compared to the supposed entitlement crisis.[22] The document calls for "a report on long-term sustainability of the public finances, regularly enough to make an effective contribution to public and political discussion on this subject".[23] This is much more modest than the common claims in the United States, in which the budget leaders involved with the CRFB and related organisations claim policy must guarantee, now, sustainability over a 75-year, or even infinite, time horizon.[24]

In these ways the Recommendation strongly prioritises a vision of responsible budget totals, but the *standard* is more moderate than is common among budget elites in the United States, or perhaps was common before the crash in other OECD countries. This looks like learning from recent experience. The same experience, however, helps explain why the principles recommend a particularly wide *scope* for managing budget totals.

Hence the preamble to the document declares that, "budget systems and procedures should be co-ordinated, coherent, and consistent across levels of government in the interests of facilitating a comprehensive national overview of the public finances". Principle 3 calls for a "national framework for supporting public investment" that would include "co-ordination of investment plans among national and sub-national levels of government".[25] The co-ordination of investment plans in particular may seem problematic to subnational officials, who have their own interests, constituencies, and in some cases financing. But the document's view of public finances can be justified in part from the experience of the economic slump in which, as OECD's summary of national responses reported in 2012, many central governments (CGs) at first subsidised subnational governments (SNGs) "to avoid them carrying out pro-cyclical policies". As central governments then turned to "fighting to reduce their deficits and debt", this "reversal" was "particularly difficult for SNGs, still reeling from the consequences of the crisis and now watching the special measures taken by the CGs peter out". As a result SNG debt rose in almost all countries and in some (especially Spain) it rose "beyond what is permitted by self-imposed or central government rules".[26]

The Recommendation recognises that national political systems vary, and one must hope the authors understand that, in some countries, the desired co-ordination is at best unlikely. The US constitutional system is not designed to allow the national government to co-ordinate with, or even predict, state governments in any effective way. Nevertheless even in the US national policy-makers can adapt their policies to the likely subnational actions that they do not control, and in 2009 did so.[27] In principle, OECD's advice that national policy-makers pay attention to developments at subnational levels is clearly appropriate. In practice the advice will often be very difficult to follow. One reason is the distribution of blame: if national policy-makers run larger deficits in order to protect subnational governments, national policy-makers may be accused of budgetary "irresponsibility". More generally, co-ordination requires that officials at different levels of government be on the same team, so that, for example control of governments by different parties does not impede nationally "rational" allocation of resources. That is uncertain in any federal system.[28]

3. Economic management's implications for process

The first and second principles have further implications for budget processes, by very strongly endorsing a "top-down" approach. This term, "refers to the practice whereby the fiscal targets are determined from the outset of the budgetary process, with annual and multi-annual budgetary policies and priorities subsequently determined in conformity with these overall levels".[29] The first principle calls for "applying top-down budgetary management, within these clear fiscal policy objectives, to align policies with resources for each year of a medium-term fiscal horizon". The second calls for a "medium term expenditure framework" with "real force in setting boundaries for the main categories of expenditure for each year of the medium-term horizon" that is "fully aligned with the top-down budgetary constraints agreed by government".[30] Hence budgeting should be not only "top-down", but multi-year.

Understood strictly, true "top-down" budgeting is both a conventional and radical idea. That it is conventional can be seen in its easy acceptance in OECD (and other) work. The ways it is radical can be seen by looking at what it says about the purposes of budgeting.

If budgeting should be "top-down" then the effects of the totals must be much more important than the effects of the details. That is, in fact, the logic of measures such as the US "sequesters" enacted as part of the Gramm-Rudman-Hollings law in 1985 and the Budget Control Act of 2011.[31]

A different view would say that budgets are made up of details (of spending, taxes, and borrowing) which add up to totals. Totals have consequences, but so do details. Within any society, preferences about details are not likely to add up to preferences about totals: normally, voters and their representatives will want to spend more and tax less in a way that yields larger deficits than they desire. At the same time, preferences about totals can easily not allow the details that voters and their representatives want. In this view, *the basic political and policy challenge of government budgeting is to find some acceptable package that balances the conflicting preferences about details and totals*.

Matching details to totals is made especially difficult by aspects of social choice. Each actor, including whoever manages the central budget agency, can usually imagine ways to meet his or her own goal for both details and totals. Most people can identify some spending they do not value, or tax increases which don't affect them so seem acceptable. Spending cuts and tax increases that are accepted by majorities, however, are less common. Thus majorities can easily support a given (more constrained) total while disagreeing about how to achieve it. So they oppose any package of spending cuts and tax increases needed to adjust the status quo to match that total.[32]

A traditional budget process will normally begin with guidance from the central budget office, which is based in part on that office's, or hopefully its political authority's, preference about budget totals. But even the guidance might include some sense of what is possible on the details: for example, during a war the guidance to the military is likely to differ from guidance to other agencies. In the traditional budget cycle, after guidance was issued then agency feedback would be reviewed so as to judge if the consequences of constraint on the details were acceptable. The central budget office might choose to ignore details – to just insist that the agencies live with the figures, define that as an opportunity for the agencies to exercise discretion, and perhaps call that "new public management". But at some point – as in the US sequesters – ignoring the details is at best a distorted approach to policy analysis, and at worst irresponsible.

Dramatic challenges such as wars and the financial crash reveal that consequences on dimensions other than the budget balance will sometimes be more important than the goals for totals. Yet the point may be better illustrated with specific examples. In 1989, balancing the US federal budget by fiscal year 1993 would have required at least USD 100 billion in immediate deficit reduction. This would have been equivalent to abolishing the United States Navy; or to abolishing Medicaid, the Department of Education, Department of Justice, Department of State, Federal Highway Administration, and National Institutes of Health; or to raising the federal income tax by 21%. At the time, there was extensive political pressure to eliminate the deficit by fiscal year 1993. In fact, there was a federal law, Gramm-Rudman-Hollings, which required a balanced budget at least that soon. Gramm-Rudman might be considered, in the terms of the Recommendation, as a "clear and verifiable fiscal rule" expressed as a "medium term expenditure framework". The deficit reduction it called for was not achieved at least in part because, if a neutral party were to compare the set of costs in my examples to the measurable economic benefits of a balanced budget, the "tough choice" could legitimately seem like bad policy.[33]

In practice, the Recommendation's emphasis on top-down fiscal management implies that the effects of small variations in deficits are more important than they are likely to be. Given a target, would having a deficit that is higher by one-tenth of a per cent of GDP be so terrible? In the US in 2013 that would have been a bit under USD 17 billion. Abolishing both the Environmental Protection Agency and National Science Foundation would have risen a bit over USD 15 billion.[34] Would you abolish both the Environmental Protection Agency and National Science Foundation rather than raise the deficit by that much? If you would not, then maybe you should have some doubts about the idea that totals should be set without reference to the effects on details.

Making top-down budgeting, a fundamental principle cannot be based on data that assesses the overall good or harm done by deficit reduction packages, considering all outputs, because the measures do not exist. At best, making top-down budgeting a principle can only be justified by assuming that there must be some set of details that is substantively acceptable. But that is not obviously true, and in reality must be a political judgment, not one that should be made by fiat without first considering the specific policies needed to meet some fiscal topline.

Perhaps the principles should be read differently. The definition of "credible" limits for fiscal policy could be based not on how binding the topline commitment seems to be, but on the extent to which the topline can be shown to have been constructed based on careful consideration of the details that would be necessary to achieve those totals. This position could be justified with some of the language that explains Principle 2, namely that an MTEF should not only be "fully aligned with the top-down budgetary constraints" and "have real force in setting boundaries for the main categories of expenditure", but "should be grounded upon realistic forecasts for baseline expenditures (i.e. using existing policies), including a clear outline of key assumptions used".[35] We might interpret this language as meaning that medium-term expenditure policies based on no attention to the details whatsoever – as in the 2011 US Budget Control Act – do not meet the SBO's standards for good budgeting.

Nevertheless, there is little else in the document to suggest that the process of adjusting preferences about details and totals should involve any give-and-take between the two sets of concerns. The emphasis on "clear and verifiable fiscal rules" is likely to be read as approving measures such as the US discretionary spending caps. If that was not intended, it would be better if the document had said so.[36]

4. Information and control

Two further purposes of budgeting may be so fundamental as to be taken for granted – yet clearly require effort and attention. These are that budgets be *accurate* and *effective*. Put another way, they require good information and control.

Accuracy includes that projections of spending or revenues which depend on events, such as spending for unemployment benefits, be close to results; that decisions about policies be based on good information about consequences; and that classifications and presentations be meaningful to users of the budget process. Effectiveness means that the budget "turn(s) plans and aspirations into reality".[37]

Accuracy requires information, and information concerns permeate the Recommendation. Thus Principle 3 calls for "objective appraisal of economic capacity gaps, infrastructural development needs and sectoral/social priorities". The "open, transparent and accessible" documents and data for principle 4 require "clear, factual budget reports" that are available throughout the decision-making process. It also requires, "the clear presentation and explanation of the impact of budget measures, whether to do with tax or expenditure", and gives as an example "a 'citizen's budget' or budget summary, in a standard and user-friendly format".[38] Principle 6 includes that budget accounting should show "the full financial costs and benefits of budget decisions".[39] Principle 8, on performance, evaluation, and value for money, calls for "parliament and citizens" to "understand not just what is being spent, but what is being bought on behalf of citizens – i.e. what public services are actually being delivered, to what standards of quality and with what levels of efficiency". This requires performance information presented "in a way which informs, and provides useful context for, the financial allocations in the budget report", and "objective, routine, and regular" review of programmes.[40] Principle 10 then emphasises that accuracy (integrity and quality) requires both adequate capacity within the Central Budget Agency and line agencies and, often, "independent fiscal institutions or other structured, institutional processes for allowing impartial scrutiny of, and input to, government budgeting".[41]

The care and comprehensiveness with which the principles identify concerns about accurate information is impressive. Yet there are issues about both what is possible and whom these goals serve. Information standards may demand too much – particularly in terms of the ability to measure performance and value for money. In addition, whom should information serve, and who should be in control?

These issues involve technical difficulties, such as how to distinguish between the effects of a programme and environmental factors;[42] and logical difficulties, such as how to determine if disappointing performance means a programme has been underfunded, rather than being a bad programme. For example, did the difficulties implementing the federal exchanges under the 2010 US health care reform mean the programme should have been eliminated, or that more money and time should have been provided to set up the exchanges? Simplistic application of "performance" budgeting would have, wrongly, suggested the former. Most fundamentally, however, "value" in the sense of efficiency depends on values in the sense of different peoples' preferences. Two readers of this article may have entirely different views of the "performance" of the 2010 US healthcare reform, because some care more about expanding insurance and some more about limiting government. The concept of "objective" evaluation and review may be applicable if one stipulates that it only involves the extent to which a policy achieves some pre-specified end – an input/output analysis. That still requires measurement that may not be possible. But there simply cannot be an "objective" statement of the value of the full set of results from a programme.

The dangers of excessive trust in the idea that policy-makers can measure and so agree about performance can be somewhat ameliorated by calling for "performance-informed budgeting" rather than "performance budgeting." The difference is that the former would rely on the measurements much less in making decisions.[43] The Recommendation leans in that direction, as in the call for "performance information… which informs, and provides useful context for, the financial allocations in the budget report", which seems carefully worded. Moreover, it appears to recognise the danger of over-use when it advises that information be "limited to a small number of relevant indicators for each policy programme or area".[44] However, the policy-makers and practitioners who are expected to use the Recommendation as a "useful reference tool"[45] might not notice the more careful language within the document's broad emphasis on performance measurement.

Control is emphasised in Principle 7, on budget execution, and in Principle 10, which calls for independent audit by a "supreme audit institution (SAI)". It is fair to say, as it does, that control should also include "some limited flexibility, within the scope of parliamentary authorisations, for ministries and agencies to reallocate funds… in the interests of effective management", while also saying that "more significant reallocations… should require new parliamentary authorization".[46] Yet the value of "control" from the standpoint of central authorities can also be taken too far.

The Recommendation expresses budget-makers' traditional distrust of measures that dedicate revenues to specific programmes, declaring that, "for exercising… regulation and control… the use of special-purpose funds, and ear-marking of revenues for particular purposes" should be "kept to a minimum".[47] Again, the language includes some room to fudge. The "minimum" could be entirely a matter of judgment so that, for example, dedicating a very large share of revenues to pensions and health care could seem the "minimum" in some countries. Yet most people presumably would read the language as strongly discouraging ear-marking of revenues.

Yet dedicating revenues is one way of creating credible long-term commitments to those programmes. From a voter's standpoint this might even be seen as control: gaining a guarantee from the government. This is not, however, likely to be the Central Budget Authority's view. Other OECD budget work has expressed a strong scepticism of such commitments, in the interest of maintaining "fiscal space" or "strategic agility".[48] Hence the search for control by limiting special-purpose funds and revenue earmarks makes great sense from a budget controller's point of view, but not so much from the perspective that budget processes should represent public preferences.

That brings us to the most basic issue about the Recommendation: the understanding of representative government that it promotes.

5. Budgeting and representative government

To repeat the basic question, whom should budget processes serve?[49] The Recommendation emphasises that good budgeting is a basic part of representative government. "More than" being "a central policy document of government" and way "to turn plans and aspirations into reality", the introductory note proclaims, "the budget is a contract between citizens and state, showing how resources are raised and allocated for the delivery of public services… Budgeting is thus an essential keystone in the architecture of trust between states and their citizens".[50]

The preamble emphasises the importance of "rebuilding trust in government" through "promoting open government and ensuring transparency in policy making". It further proclaims that, "the national parliament has a fundamental role in authorizing budget decisions and in holding government to account", adding that, "parliament and citizens should be able to engage with and influence the discussion about budgetary policy options, according to their democratic mandate, competencies, and perspectives".[51] Principle 5 calls for "facilitating the engagement of parliaments, citizens, and civil society organisations in a realistic debate about key priorities, trade-offs, opportunity costs and value for money".[52] Principle 8 calls for the government to "help parliament and citizens to understand not just what is being spent, but what is being bought on behalf of citizens", with other calls for providing "objective, routine and regular" information.[53] Principle 4 calls for "the clear presentation and explanation of the impact of budget measures", such as in a "citizen's budget".[54]

Hence one primary purpose of budgeting is to link citizens and the state in two ways: citizens will know what to expect from and trust the state if they have a good budget process, and there will be public participation of some sort in making the budget. The call for a "realistic" debate, however, raises the question of how a budget process would ensure "realism". For example, if one of the purposes of the process is "providing clarity about the relative costs and benefits of the wide range of public expenditure programmes and tax expenditures",[55] whose judgments should be treated as authoritative?

The draft set of principles seemed to set standards for public participation – that it would be "useful" if guided by the government to be "realistic".[56] The final recommendation does not make such statements. Nevertheless, it seems important to acknowledge that governments have biases. Indeed, much of the point of elections is to choose which bias will control the government. Principle 10 calls for independent audit, to help support "the professional objectivity of economic forecasting, adherence to fiscal rules, longer-term sustainability and handling of fiscal risks".[57] This does not, however, address the question of who should assess policy trade-offs – which include consequences on policy details, not just budget totals. It might have been appropriate to specify in Principle 5 something like, "Governments should encourage access to information from multiple sources about the relative costs and benefits of policy priorities and trade-offs".

Yet there is a deeper issue, regarding a view of representation which describes the budget as "*a contract between citizens and state*". The contract metaphor raises logical questions: who are the parties, what is the scope of such a contract, and who can break it?

Is there really a united thing called "the government" or "the state" which relates to "the citizens"? The central budget agency and the agencies (or interest groups) frequently disagree about the facts – and the central budget agency, in part because it must serve its executive master, is not always right.[58] As I discussed above, co-ordinating policies between national and subnational governments may be difficult even if politicians at the two levels are on the same party "team" – and often they will not be. Nor does any policy have fully objective costs and benefits, because different members of the public have different utility functions. That is one of the basic difficulties with performance measurement, as in the case of the US healthcare reform. Budgeting involves political processes that result in a set of decisions, and assuming that either side of the "contract" is a single actor can blind us to the politics that is basic to budgeting.

The issue of scope of contract is raised directly by decision-making about entitlements or social insurance, in particular long-term promises associated with dedicated revenues, such as pension systems. In the ideal world that is implied by the OECD principles, the budget as contract is re-made each year, or perhaps every few years in a new Medium Term Expenditure Framework as a new government takes office. We have seen that the drafters of the principles, as is traditional in the budget world, disapprove of dedicated revenues and want to maximise flexibility. That is rational if the over-riding purpose of budgeting is to adjust public spending and taxing each year so as to manage the economy.[59] Yet the major entitlement or social insurance programmes often involve long-term promises and dedicated revenues. Pension systems usually have dedicated revenues (contributions) for good policy and political reasons, and in order to be credible at all must be long-term promises.[60] The OECD principles carefully avoid the fear-mongering about long-term commitments that is common among US elites. Yet the document does not recognise that there are reasons to be much more cautious about changing some parts of the budgeting "contract" than others.

I do not mean to suggest that social insurance programme "contracts" – or commitments to the bureau versions of such programmes, such as the English National Health Service – are or should be engraved in stone. In the United States, activation of the "reconciliation" process in congressional budgeting, in 1980, improved the process by facilitating, though not guaranteeing, annual consideration of both entitlement programmes and taxes in addition to discretionary appropriations.[61] Yet we can endorse considering all aspects of a budget, the traditional norm of comprehensiveness, while still recognising that there is not and should not be a single budget contract, annually negotiated between citizens and state.

Advocates of the contract view could argue that there is no problem with changing entitlements because any decision made about the budget in any given year is, by definition, approved by the citizens through the political process. The government cannot break the contract, because the citizens must have agreed. This begs the question of why, if that were true, one would even bother distinguishing citizens and state. Yet there is a more fundamental problem with viewing budgets as a contract between citizens and the state.

Both the state (in its varied agencies and levels of government) and the citizens are not unitary. Hence a budget at one level is a treaty within the government, but most basically is a treaty among forces in society. It is a set of terms, worked out through the political process, of how citizens will share a country. **The distribution of costs and benefits is not simply a contract "the government" negotiates with "the citizens". It is or should be something that the citizens negotiate with each other through politics.**

If a budget is a treaty, then a major purpose of budget processes should be to manage social conflict. The OECD principles do not appear to consider this purpose. It would be unrealistic to expect budget processes to create agreement in badly polarised countries. Yet budgeting can exacerbate underlying polarisation as well.[62]

The issue here is as much about representation as budgeting. The Recommendation emphasises that budgets should be aligned "with the medium term strategic priorities of government",[63] which has to mean the government of the day. Serving the priorities of the government of the day may seem like a good operating definition of representativeness. Yet elections are not normally enthusiastic endorsements of a new party's agenda. They are votes to throw out the old bums, not all of the old activities. There are some programmes, such as social insurance or tax policy, that perhaps should be more difficult to change than the ordinary funding of government agencies. As James Madison wrote, "mutability in the public councils" has its disadvantages.[64] Responsiveness in the form of "stop-go" policies could be one example.[65]

In a divided country, perhaps there is some value to making it a bit difficult for the majority of the day – or, as it often is, the minority in office – to impose its budget preferences on the rest of the country.[66] Nor should consequences on details be so thoroughly subordinated to supposed macroeconomic effects, through "top-down" budgeting. Nor should expectations based on years of contributions to dedicated funds be viewed as an obstacle to good budgeting. If we see social peace as fragile, responsiveness to short-term preferences may not be such a good thing.

6. Conclusion

The Recommendation shows both continuity with much of budget thinking over the past two decades, and some significant improvements. While it does not reverse the promotion of top-down budgeting that has become ubiquitous, it provides more moderate standards for totals than the standards promoted by many budget elites in the United States. The view of government effects on the economy, with its emphasis on all levels of government, is analytically appropriate though difficult to implement. The discussion of fiscal risks calls for developing appropriate information, while not pretending that any government can make authoritative budget decisions beyond the medium term. Again, this is more appropriate than some common thinking in the United States.

Yet the document also reflects a view of the purposes of budgeting that may be more credible to central budget actors than to observers of modern political systems. It includes not only an excessively top-down approach, but a questionably unitary view of governments and publics. As a result, it is not likely to help policy-makers and practitioners address some of the basic challenges of public budgeting.

One way to see the problem is to perform a thought-experiment. How would the US federal budget system as of 1986 compare to the Recommendation? The US national government did not have much of a capital budget, and what it had was not quite explicitly co-ordinated with subnational governments.[67] But Gramm-Rudman set clear limits for fiscal policy, in law; budget resolutions set medium-term expenditure frameworks; budget documents were open, transparent and accessible; there was very extensive debate; accounting was quite comprehensive and accurate; at least the best-known long-term risks (due to social insurance programmes) received extensive attention; and there were multiple sources for estimate and audit (OMB, CBO and GAO) which thereby should rank quite highly in any evaluation of budget systems' ability to provide independent and reliable information. In short, while not ideal, US federal budgeting in 1986 should seem, on its face, to match quite closely to the principles in the Recommendation. Yet US budget politics at the time was by other standards nearly disastrous. Deadlines were regularly missed, the effect of the Gramm-Rudman limits was to incentivise fraud, and both elites and masses viewed the process as a mess that certainly did little to encourage trust in government.[68] The basic problem was deep political disagreement, and the ways in which the US budget process in 1986 met the principles in the Recommendation did nothing to overcome disagreement.[69]

Perhaps it is relatively easy to ignore the political consequences of budgeting outside the United States. Perhaps it is relatively easy to ignore the challenges of maintaining social peace, or to view "trust" as largely dependent upon clear documents, because the Great Recession, in spite of all the misery it has created, has not led to massive protests and disorder. But it is especially dangerous to forget that budgets are social settlements, reflecting the distribution of stakes in a country. Events haven't forced budgeters do re-learn that lesson this time. But that does not mean it should be ignored.

Notes

1. One classic statement of this approach is Key (1940). Among many other examples are the Hoover Commission, or Commission on the Organization of the Executive Branch (1949); the massive literature on performance budgeting (Novick, 1965; Schick, 1966; Schick, 2013); and the Progressive-era campaign for the executive budget (Rubin, 1994).
2. For one of many accounts of these linkages, see Burkhead (1956), pp. 13-21. He also emphasises the links to other reforms of public administration.
3. Meyers (1996), p. 175. Judging from my own interviews, neither law significantly changed how the executive budget submissions were evaluated by Congress, or how the legislative appropriations process worked; but they certainly affected routines within the executive branch. Some budget process reforms, such as the 1974 Congressional Budgeting and Impoundment Control Act, appear to be more improvisational, rather than based on a pre-existing body of advocacy research; see Schick (1980). Performance budgeting in its various forms also has changed processes if not outcomes; and in the US case, the executive budget process surely influenced outcomes.
4. The document is OECD (2015). For an introduction to the process through which this document was developed, see *www.oecd.org/governance/principles-budgetary-governance-public-consultation.htm*. Allen Schick provided a brief review of a closely-related earlier draft at the 2014 Annual OECD Meeting of Parliamentary Budget Officials and Independent Fiscal Institutions, at *http://knesset.gov.il/mmm/oecd/Session8_Allen_Schick.pdf*.
5. Thus the nearly final draft is OECD (2014a). I was fortunate enough to attend the June, 2014, SBO meeting in Berlin, at which I was introduced to the project and discussion of that draft.
6. This journal is one regular product of that collaboration.
7. OECD works to develop "International norms and standards, best practices, and policy guidelines", which are then called "OECD legal instruments". For examples of such reports about budgeting, see OECD (2002, 2012, 2014b). For an overview of the practice see *www.oecd.org/legal/legal-instruments.htm*.
8. One can already find examples of the 2014 SBO draft being cited, such as in the budget of the Republic of Ireland, *Comprehensive Expenditure Report 2015-17*, Part 3, pages 2 and 3, available at *http://budget.gov.ie/Budgets/2015/Documents/Part%20III%20Evaluation%20and%20Reform.pdf*; or in Mario Marcel, "New Fiscal Transparency Initiatives Are Key to Good Governance" (10/30/2014) posted at *http://blogs.worldbank.org/governance/new-fiscal-transparency-initiatives-are-key-good-governance*. OECD budget work is disseminated further through this journal.
9. OECD (2015), p. 1.
10. See, for example, Axelrod (1988), pp. 7-15; Lewis and Hildreth (2013), pp. 17-23; Rubin (1997), pp. 1-2.
11. For accounts of the moves away from emphasis on demand management and towards encouraging savings, see White and Wildavsky (1991), especially pp. 24-33, 49-56, 259-284, 331-354, and 412-421; White (2003) pp. 73-98.
12. They are summarised in the same form in OECD (2015), p. 3.
13. Ibid., p. 4.
14. Ibid., p. 5.
15. Downes (2014), slide 9.
16. Rubin (1997) p. 4.

17. OECD (2015), p. 5.
18. See Moravcsik (2012).
19. CRFB's Board includes former legislative budget leaders, who would not be participants in the SBO network, but also a substantial contingent of former executive branch officials who held positions similar to those of the members of the SBO group. See *http://crfb.org/about/board*.
20. For further discussion of what I would call budgetary extremism in the US, see Meyers (2014).
21. For an account of the origins of this view and why one should be sceptical of the merits, see White (2003). The concern itself is simply a commonplace, asserted in all sorts of contexts. For one example, in an attack on the 2010 health reform legislation, see Holtz-Eakin and Ramlet (2010).
22. Some economists, such as Dean Baker (2012), have argued that it is illogical to worry about future costs of entitlements at a time when large deficits were created by the collapse of a housing bubble that, in turn, was a response to deeper economic conditions. In contrast, the CRFB expresses little attention to the housing bubble as a cause of deficits, and it has essentially argued that the "deficit bubble" is more important – even though the deficits at the time were largely caused by the bursting of the housing bubble, while the long-term deficits would have much less immediate effects than those of the housing collapse. For an example, see Frenzel and Panetta (2008).
23. OECD (2015), p. 10.
24. Arguably, the United States already does all the reporting for which anyone could reasonably ask, with annual reports from the Board of Trustees of the Social Security and Medicare programmes, an annual report from the Congressional Budget Office (e.g. CBO 2014), and occasional reports by the Government Accountability Office.
25. OECD (2015), pp. 5, 7.
26. OECD (2012), p. 259.
27. State balanced budget requirements are likely to limit variation in state policies over the medium term (two or three years, not one) in spite of the many holes in those requirements; for one account of those holes see Briffault (1996). The 2009 American Recovery and Reinvestment Act (ARRA) was designed in part to prevent a portion of expected state budget cuts (Oliff et al. 2009), and those cuts could be expected in part because of those balanced budget requirements. While the measures in ARRA may have been inadequate, and some policy-makers opposed even those measures while others prevented further action, it would not be accurate to say that budget policy at the national level in 2009 paid no attention to budgeting at the state level.
28. Consider conflicts over the Canada Social Transfer or Commonwealth of Australia support of state hospital systems, which can be exacerbated when different parties control a major state (e.g. Ontario or New South Wales) government and the national government. For that matter, consider Catalonia and Spain.
29. OECD (2015), p. 5.
30. Ibid., p. 6.
31. See White and Wildavsky (1991) on Gramm-Rudman; Meyers (2014) on the Budget Control Act.
32. This argument is made in more detail in White (1998a). For a similar explanation of social choice in budgeting, see Downs (1960).
33. White and Wildavsky (1989). That article also discusses a more complex set of alternatives generated by Joseph Minarik and Rudolph Penner, who in doing so also discovered the basic problem that the costs on the details could easily seem greater than the benefits from budget balance.
34. The projected calendar year 2013 US GDP as of October 30, 2014, was USD 16.8 trillion; see US Department of Commerce (2014), Bureau of Economic Analysis, p. 8. The enacted appropriations for the two agencies for Fiscal Year 2014 (October 1, 2013 -September 30, 2014) were about USD 15.4 billion; see Office of Management and Budget (2014) Table S-11.
35. OECD (2014), p. 2.
36. One could imagine a long article on another issue, whether or when "clear" rules could calm financial markets by creating "credible commitments". Since commitments to destructive policy such as the original Gramm-Rudman sequesters will, at least some of the time, not be met, the idea that clear rules about totals (e.g. in a Medium-Term Expenditure Framework) that cannot be met with plausible details will satisfy financial markets may, in such cases, require budgetary ignorance on the part of financial market participants. This may be a reasonable assumption but,

on the whole, is not one on which policy-making should rely. For further discussion, see White and Wildavsky (1989), pp. 17-19, and sections on both markets and Gramm-Rudman in White and Wildavsky (1991).

37. OECD Public Governance and Territorial Development Directorate (2015), p. 1. For the classic analysis of situations in which budgets were neither accurate nor effective, see Caiden and Wildavsky (1980).
38. OECD Public Governance and Territorial Development Directorate (2015), p. 7.
39. Ibid., p. 4.
40. Ibid., p. 9.
41. Ibid., p. 10.
42. A problem that is especially evident in attempts to measure the performance of schools, which depends on far more than what happens in the schools. For one of many critiques see Ravitch 2013. A parallel case is the effort to "pay for performance" by health care providers, also subject of a massive literature.
43. See Anderson (2012); White (2012); Schick (2013).
44. OECD (2015), p. 9.
45. Ibid., p. 1.
46. Ibid., p. 9.
47. Ibid., p. 9.
48. See Hawkesworth and Klepsvik (2013); Marcel (2014); Schick (2009).
49. One frank, if not necessarily pleasant, answer to the question of whom budget systems should serve is that national budgeting serves outsiders, such as creditors. The draft document proclaimed that, "External stakeholders… look to the quality of the budget document, and of the budgeting process, in assessing the soundness and reliability of a state". OECD Senior Budget Officials (2014), p. 1. This language is conspicuously absent from the final Recommendation.
50. OECD (2015), p. 1.
51. Ibid., p. 4.
52. Ibid., p. 8.
53. Ibid., p. 9.
54. Ibid., p. 7.
55. Ibid., p. 8.
56. "Since governments have finite resources at their proposal, budgeting is concerned with identifying priorities, assessing value for money, and making decisions. Parliaments, citizens, and civil society organisations can contribute usefully to the budget process when they become engaged in a realistic debate about difficult trade-offs, opportunity costs, and value for money. Governments should facilitate this useful engagement by making clear the relative costs and benefits of the wide range of public expenditure programmes and tax expenditures, and by ensuring that all major revenue and expenditure decisions are handled within the context of the budget process". OECD (2014), p. 4. The term "useful" especially seems to imply that government could judge the quality of public contributions to debate, so the exclusion of the term from the final Recommendation makes the concern I raise here less significant than it could have been.
57. OECD (2015), p. 10.
58. In the US context, prominent examples would include failures to accurately project, or even try to project, the costs of the 2003 invasion of Iraq; and suppression within the Reagan administration of the Centers for Disease Control's requests for funding to investigate the developing AIDS epidemic; for the latter case see Shilts (1987).
59. If we ignore for the moment the difficulties of co-ordinating national and subnational policy, especially when governments at the different levels are controlled by different parties.
60. See White (1998b) for extensive discussion.
61. See White and Wildavsky (1991) for description and analysis.
62. For discussions of polarisation and budgeting in the United States, see Mann and Ornstein (2012); White (2009a, b).

63. OECD (2015), p. 6.
64. Madison (1788). See also Max Weber's argument that the dynamism in a market economy depends in part on predictable government policies, such as taxes.
65. Brittan (1971).
66. Governments may represent minorities because of non-voting or because election rules (as is often true in Westminster systems) allow control of the government with less than half of the votes. Then there are the rare cases (as in the United States in 2000) of the winner of the election receiving fewer votes than the loser.
67. Although one should note that much of federal government spending was in the form of allocations to states, and the political process of allocating that money very directly considered effects on state finances.
68. For the most extensive account see White and WIldavsky (1991). Note that being quite visible ("transparent") does not increase trust if people don't like what they see, and people don't like seeing disagreement and conflict.
69. As White and Wildavsky (1991) explains, the Gramm-Rudman-Hollings law was promoted as a way to force agreement by threatening horrible consequences if the medium-term targets were not met. This didn't work.

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