NEW PUBLIC MANAGEMENT AND THE POLITICS OF GOVERNMENT BUDGETING

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Introduction

The 'guardian-spender' framework formulated by Aaron Wildavsky has defined the way in which most political scientists think about government budgeting since it first appeared in 1964 (Wildavsky 1975; Green and Thompson 1999). Wildavsky argued that budgetary outcomes could be explained (or at least analyzed) by focusing on the interplay of budget actors performing the highly stylized institutional roles of guardian (of the public purse) and spender. This behavioral framework proved sufficiently flexible to account for the differences in budgetary performance across different political systems (see studies by Savoie 1990; Heclo and Wildavsky 1974; Wildavsky 1986); as well as explaining the impact of budgetary reform and divergent economic environments on budget politics (Caiden and Wildavsky 1974; Wildavsky 1975). Reference to 'guardians' and 'spenders' still pervades discussions of government budgeting in the academic literature of political science and economics (Campos and Pradhan 1997), and has become accepted as conventional descriptions by practitioners in national governments and international bodies (such as the OECD, World Bank and the IMF).

This article applies Wildavsky's guardian-spender framework to analyze the impact of New Public Management (NPM) reforms on budgetary politics, and to test the framework's continued *explanatory value*. It is widely held that NPM reforms are explicitly designed to transform the existing norms, rules, process and objectives of budgetary and financial management (NZ Treasury 1987; Hood 1991; Boston *et al.* 1991; Pollitt 1993; OECD 1995; Thompson 1998). We want to study how these reforms are likely to impact on the balance of power between guardians and spenders in a given budgetary setting. This initial study focuses on three widely recurring themes that typify the NPM budgetary and financial reform agenda: reformulated budgetary objectives and culture, centralized aggregate expenditure controls, and devolved financial management. In pursuing these reforms, NPM seeks to establish new budget conventions that are based on principal-agent relationships, outcome-based accrual accounting and budgeting techniques, and contract-price budgeting (variously called competitive tendering). We ask whether these NPM reforms re-model or transform budgetary systems to such an extent that the guardian-spender framework has declined in explanatory value.

Our analysis proceeds in four sections. The first re-examines central elements of Wildavsky's model of budgetary politics focusing specifically on the guardian-spender dichotomy, tools and strategies of the 'budget game' and the impact of budgetary reform. Next we identify the main categories of budget and financial management reforms introduced under NPM (OECD 1995:94-197; 1998). The third section of this article examines the impact of these reforms on budgetary politics; specifically, on institutional roles and functions; on the tools and strategies available to both sets of budget actors; and on the balance of power within a budgetary system. Finally, we conclude by posing questions on the continued sustainability of the guardian-spender framework given new problems posed by changes in the budgetary environment (such as the recent arrival of surplus budgets and the political difficulties associated with managing surpluses while maintaining fiscal restraint).

The conclusion of the analysis suggests that *where NPM reforms have been extensively adopted and far-reaching* they alter the terrain of budgetary systems, establishing more complex budgetary arrangements than suggested by the guardian-spender model. NPM reforms tend to change budgetary behaviors and, in doing so, alter the balance of power in favor of guardians. The reforms also change the budgetary role of spenders as budget actors. Hence, the traditional dichotomy between rationing guardians and maximising spenders is difficult to sustain as more complex budgetary relationships emerge that do not accord with the guardian-spender model. Furthermore, NPM reforms also have the potential to shift both the locus of budgetary conflict and the areas of agreement. Budgetary relationships are likely to become more fragmented, more uncertain and less routine if contractual service deliverers are included in the process. Conflict is likely to be dissipated away from central budget agencies with spenders assuming guardian roles over resources they themselves may chose to deploy in purchasing contractual services from other actors. The advent of multi-year budgets (providing 2 or 3 year authorizations) also has the potential to contain budgetary conflicts. Finally, we ask whether the 'transformations' to budgetary systems under NPM are likely to require further amendment as governments regularly have to manage budget surpluses.

Strategies and Tools of Budget Politics

In *The Politics of the Budgetary Process* Aaron Wildavsky established new methods of inquiry into the processes of government budgeting (Jones and McCaffery 1994). Rather than proceeding from a normative basis that sought to pronounce how governments *should* budget, Wildavsky focused on explaining 'how the budgetary process actually works' (1974). He revealed the highly competitive but uncertain nature of budgetary formulation, the inherent complexity of budgetary decisions, and how budget actors need to specialize, 'satisfice' and rely on 'decisional heuristics' to contain conflict. Behavioral norms tended to characterise government budgeting in the absence of formal procedures for financial control. In other words, Wildavsky constructed a framework for studying the *politics* of government budgeting which highlighted three primary elements of budgetary politics:

- the dichotomous relations between guardians and spenders became pronounced in the absence of formal rules and procedures of financial control;
- actor strategies and practices provided some sort of 'routine' to budgetary politics; and
- the impact of reform on budget politics tended to be limited.

Government budgetary politics are depicted as a game between two sets of actors playing the institutional roles of guardians and spenders.[1] Wildavsky classified budgetary players according to loosely defined and highly stylized criteria based on 'the *expectation of behavior* attached to institutional positions' (1975:11). These roles are performed at each stage of the budget process and at all levels of the political and bureaucratic spheres. Wildavsky summarized his argument as follows:

> One of the constants of budgeting is the division of roles into spenders and savers, a result of the universal scarcity of resources. Claims and demands always outweigh the resources to satisfy them. Hence there are always people who want more than they have and those who show them they can't have as much as they would like. Officials in charge of carrying out the government's functions are oriented toward needs. They are always confronted with things that are not done but should be done. They fulfil their task best by advocating these needs. For this reason the government's purse needs guardians who would ensure spending does not go beyond available resources and that all spending advocates get a share of what is available (Wildavsky 1975:187).

While Wildavsky recognized the dichotomy between spenders and guardians resulted in adversarial conflict, he did not define this conflict as problematic. Successful budgeting is portrayed as a product of ongoing guardian and spender relations: both roles are legitimate and necessary in resolving budget decisions. Dividing functions and responsibilities between spenders and guardians enables specialization, increases predictability and, therefore, reduces complexity in budget decision-making. Programs are generated by those with expert knowledge; expenditure and revenue limits are set by those responsible for the government's economic and fiscal performance. Interaction between the two sides forces compromise and requires both sides to justify and defend their position: specialization and institutional conflict between spenders and guardians produces better budgets.

Second, guardians and spenders employ an array of strategies, practices and processes to further their objectives in budgetary negotiations and these 'techniques of competition' are knowable. All budgetary systems provide actors with limited options, and in response they devise a set of strategies and practices used to play the 'budget game'. In attempting to 'protect the public purse' against the spenders, guardians may draw on their legislative and administrative authority, attempt to exercise 'moral' suasion, or manage budget decision-making processes. Guardians in parliament or congress have the legal authority to reduce or simply deny the funding requested of a particular agency. Central budget agencies adapt the systems of financial accountability to control expenditures. Guardian ministers may threaten to increase tax levels or impose across the board cuts. They often will seek agreement on expenditure targets or rationing strategies before proceeding with more detailed budget negotiations.

For their part, the spenders draw on their position as policy or program experts to legitimize claims to protect existing expenditure, increase their relative share of public expenditure, or add new programs and expand existing ones. Not only do spenders need to produce 'good work' and 'play it straight', but they should be able to recognize and exploit available opportunities at the appropriate time. Policy expertise is based on relations with the program clientele or service delivery knowledge, yet spenders must be careful not to project the image of being 'captured' by those clients. In protecting their on-going base, spenders may threaten to burn the 'Washington Monument'. Both sets of actors seek to exert political influence for their desired position by garnering congressional or ministerial support, by mobilizing interest groups or influential staffers.

Yet, budgeting is not a 'free-for-all fight' between guardians and spenders: budget actors cooperate as well as compete. The complexity of budget decision-making requires areas of stability and techniques of conflict limitation or confinement. For example, in determining how much additional funding to request or how much funding to grant, budget actors rely on various 'aids to calculation'. Under the system described by Wildavsky, both parties rely on past experience as a guide either to the reliability of a department's claims or the likelihood of spending being approved. They simplify the issues under consideration by limiting the focus of discussion to inputs rather than policy, or excluding certain agreed tracts of expenditure – such as those included in 'the base' or the non-discretionary expenditures - from budget negotiations. As a result, budget decision-makers tend to 'satisfice' rather than comprehensively review each and every possible option. The increment method of budgeting implies regular, annual expenditure changes (typically increases) across all expenditure areas in each department. Spenders know they will get a 'fair share' increase, guardians know that increases will not be too high. Losses in one year can be gained in another; problems in one year can be deferred until the next. Wildavsky concludes: 'the men who make the budget are concerned with relatively small increments to an existing base. Their attention is focused on a small number of items over which the budgetary battle is fought' (1974:15).

Third, budgetary reform is likely to upset the balance of power between guardians and spenders, and so affect budget outcomes. This is because the *actual* strategies available to budget actors vary according to the political, economic and budgetary system within which the budget 'game' proceeds. The balance of power over time is largely dependent on the extent to which guardians *vis-à-vis* spenders are able to take advantage of these strategies. Under stable institutional, political and economic conditions, the game of budget politics becomes routine: each player knows what to expect from the other and 'participants have counter-roles that necessitate a strong push from the departmental side' (Wildavsky 1974:19). Budgetary reform upsets this balance and previously agreed areas of budget politics become highly contested. This is one of the major reasons why budgetary reform is highly political, threatening and hotly contested.

It is within this context that we analyze the budgetary reforms introduced under the auspices of NPM. The principal reforms associated with NPM were often designed precisely to change the way public resources were allocated and were managed. As such NPM has attempted to reconstruct many of the traditional 'tools of budgetary politics'. To the extent it is successful in this regard NPM is likely to impact on the roles and capacities of the major budgetary actors. The remaining sections of this article present a preliminary study of what NPM seeks to achieve in budget reform; what the basic paradigm defines as 'good' budget practice; how these new budget and resource management practices impact on guardians and spenders; and how NPM reforms impact on budget conflict.

NPM and the Vision of ‚Better Budgeting'

The central core of NPM reforms has to date been directed toward reconstructing the nature of public provision mainly using improved resourcing and financial management. By the mid-1970s, much had been written about the problems of traditional line-item budgeting (Wilenski 1986:225). Studies of both the American and British budgeting systems suggested classical budgetary processes favored spenders over guardians, and were the cause of ever increasing taxes, debt and deficits. These criticisms were echoed by commissions of inquiry into traditional systems of public administration established by governments around the globe. These included the Glassco (1962) and Lambert commissions (1976-9) in Canada, the Coombs (1974-6) and Reid (1982-3) reports in Australia, and Reagan's Grace commission established in 1982. In the UK, Thatcher established the Efficiency Scrutiny Unit in the early 1980s to conduct regular 'scrutinies' of the efficiency and economy in departmental administration. Each of these investigations presented a litany of complaints against traditional budgetary systems and the outmoded financial techniques used within government. They recommending instead the adoption of far-reaching reforms typically directed toward 'letting the managers manage' – encouraging managerial flexibility within a framework of defined objectives, tight resource controls and performance monitoring.

Yet, each inquiry advocated various forms of budgetary and financial management reform, and many of their detailed recommendations appeared to be contradictory. On the one hand, critics argued that the traditional budget provided guardians with insufficient authority or incentive to limit claims for increased spending by line departments. Central agencies appeared largely incapable of overcoming the incremental bias inherent in the traditional budgetary process, and lacked the incentives that would encourage them to find new ways of doing so. If governments were to limit their size and the growth of public expenditure then reforms were needed that *strengthened* the position of budget guardians. On the other hand, traditional budget rules and financial controls were criticized as being too restrictive and control-oriented to facilitate efficient and effective financial management (see Schick 1994; 1997). Budgetary processes were oriented toward measuring inputs, encouraging administrators to focus on probity rules and 'bean-counting' rather than on results, efficiency or the effectiveness of government programs. According to NPM reformers, new budgetary systems should be designed to provide flexibility and increase the responsibility of 'empowered managers' in both rationing resources and operating within those limits (Dawkins 1983:3).

To a large extent these contradictions stemmed from differences between new institutional economics (NIE) and 'managerialism' – the primary intellectual frames of reference informing these analyses (Aucoin 1990; Hood 1991; Pollitt 1993; Hughes 1994; Keraudren and van Mierlo 1998:39). New institutional economists applying their ideas to the public sector identified 'perverse' behavior in traditional budget institutions causing inefficiency at both the aggregate and departmental levels (for detailed review see Thompson 1998). Traditional budgets aggregated the individual choices of self-interested budget actors. This produced 'sub-optimal' expenditure decisions (that result in higher than optimal expenditure levels, and unwanted deficits and debt) because the costs of increasing government programs can be externalized in a system in which revenues are generated from broad-based taxation and distributed through consolidated revenue funds. In other words, the beneficiaries of government programs do not bear the full taxation or political costs of expenditure increases. Benefits are likely to be concentrated while the costs will be defrayed amongst the tax paying population. Further, government program 'costing' systems paid little attention to the transaction or agency costs of conducting internal government business or delivering services. Thus, in NIE the collective actions of individual budget actors behaving rationally in the budget process will result in total expenditure levels higher than that posited as the optimal collective outcome.

In response, NIE promoted institutional reform to establish different incentive patterns in the management of government resources. Budgetary reforms, they argued, should establish rules and institutions that promote ‘collectively rational’ objectives to be articulated and pursued in budgetary formulation. To that end, total expenditure levels should be centrally determined and then used to discipline subsequent budget negotiations (von Hagen 1992; Alesina and Perrotti 1997). Such determinations are difficult under the collegial decision-making systems that characterised the traditional budgetary processes and so should be replaced by high-level hierarchical decision-making. Financial management reforms should redesign the incentive structures to align the self-interest of managers with collective intentions. Instituting competitive, market-based service delivery and pricing techniques can lower service delivery costs. And the insistence on the distinction between the operational and policy functions of government (principal-agent/purchaser-provider split) reduces the transactional costs associated with departmental rent-seeking and capture (New Zealand Treasury 1987: 44-8,72-95).

By contrast, managerialism identified the existing *rules and practices* of public administration as a source of government inefficiency (Pollitt 1993). It was argued that the ethos of traditional public administration emphasised probity and compliance over efficiency and economy. As a consequence, bureaucrats in both spending and guardian agencies ‘administered’ rules and regulations, rather than ‘managed’ their program and policy resources. Managerialism proposed that these problems could be resolved by adopting private sector management techniques, and improving the quality, status and accountability of operational management. Responsibility for detailed budgeting and financial management should be devolved to those responsible for delivering government programs. Detailed lines of input-based appropriations should be replaced by broadband appropriations defined by program objectives. Closely associated with the devolution of authority is risk management and *deregulation* of financial management techniques and processes based control systems. Line managers should be free of ‘pettifogging rules or constraints’ (Pollitt 1997:467) and therefore able to transfer resources as they see fit. Rules about the modes of service delivery should also be decreased to allow programs managers the fullest discretion in achieving ‘more for less’. Program objectives should be clearly articulated, linkages made between program evaluation and budgetary allocations. In sum, reforms seek to construct a public sector in which ‘managers are not limited, as in the line-item budget, to expenditures on a particular input but can, as circumstances change, judge the correct mix of resources or inputs which will best promote the success of the program’ (Wilenski 1986: 231).

Governments in the OECD variously adopted these recommendations. Three main categories of reform were introduced: reformulating the budgetary environment; centralising aggregate expenditure controls and devolving responsibility for detailed resource management (OECD 1995; 1997). Each can be justified by either of the frameworks underpinning the NPM paradigm. Reformulating the budgetary environment redirects the self-interest of bureaucrats and politicians, and provides managers with clear objectives within which to direct their attention. Centralized aggregate expenditure controls provide managers with a stable planning environment, and a means of limiting consumption of public resources. Devolving responsibility for detailed resource management increases managerial flexibility and forces managers to assume responsibility for their government expenditures (and thereby internalize the costs of public expenditure). In the following section we explore both the expected and unanticipated impacts of these categories of reform on the role and the capacity of spenders and guardians in the budgetary process.

Before proceeding with this analysis, it is important to recognize variation and the continuing evolution of NPM reform agendas in different countries (Aucoin, 1990; Forster and Wanna, 1990; Hood, 1994; Kettle, 1997; Pallott, 1998; Peters and Savoie, 1998; Verheijen and Coombes, 1998). Comparative and individual country studies illustrate considerable variation in the extent to which these two theoretical frameworks inform NPM. By way of brief summary, Table 1 identifies some of the foremost statements and articulations of NPM in the five Anglo-American countries and (drawing on existing literature) notes which of the NPM 'partners' dominant the reform agenda in each country. In many instances, the theoretical underpinning remained implicit. New Zealand's self-identification with NIE is the exception (NZ Treasury 1987; Boston 1993). There is, of course, much overlap between the two frameworks, and this simple classification ignores the processes of cross-national learning and iteration by which the NPM paradigm evolved (for examples see Canadian Auditor General 1995; Nagel 1997). Nonetheless, these differences highlight an important qualification to the arguments presented below: the impact of NPM on budgetary politics will vary across countries. The following sections should be read with that qualification in mind.

Table 1: Selected Markers and Manifestos of NPM

Country	Manifesto(s) and 'Markers' (Year)	Dominant influence
UK	Rayner Scrutinies 1979; Financial Management Improvement (1982 CMND 9058, 1983); Improving Management in Government: the Next Steps (Efficiency Unit 1988).	Managerialism (Kemp 1990; Hood 1991; Pollitt 1993).
	Modernizing Government (1998).	Co-ordinated – joined up government.
Australia	Royal Commission on Australian Government Administration (1976); The 'Reid Report' (1983); Reforming the Australian Public Service (1983); FMIP (1984); Budget Reform (1984); The Australian Public Sector Reformed (1992).	Managerialism (Keating 1989; Hood 1991; Corbett 1992; Davis *et al* 1999).
	Beyond Bean-Counting: Effective Financial Management in the APS 1998 & Beyond (1997); Clarifying the Exchange: A Review of Purchaser/Provider Arrangements. National Commission of Audit (1996).	New Institutional Economics – contractualism, contestability.

New Zealand	Economic Management (1984); Statement of Government Expenditure Review (1986); Government Management: Brief to the Incoming Government 1987 (1987);	New Institutional Economics – esp. Public Choice Theory (Boston *et al* 1991:2-26; Pallot 1997).
USA	President's Private Sector Survey on Cost Control (Grace Committee 1982) Reinventing Government (1992); National Performance Review (1993)	Managerialism (Pollitt 1993; Kettl 1997; Thompson 1998; Fredrickson 1996).
Canada	Auditor General's report on Financial Management (1978); Royal Commission on Financial Management & Accountability' – The 'Lambert' Report (1979); Increased Ministerial Authority & Accountability (1988); Public Service 2000 (1992). Getting Government Right (1995); Modern Comptrollership; Breaking Barriers in the Federal Public Service (199) Toward Better Governance: Public Service Reform in New Zealand (1984-94) and its Relevance to Canada (Auditor-General 1995).	Managerialism (Aucoin 1990; Peters and Savoie 1998). New Institutional Economics.

Reformulated Budgetary Objectives and Culture

One of the driving forces behind the NPM agenda is an effort to change the objectives and culture of government budgeting. The emergence of NPM in most countries during the early 1980s coincided with the beginning of an era emphasizing fiscal restraint and rectitude. Most of the NPM 'manifestos and markers' identified in the above chart, present financial management reforms as a solution to problems of public sector inefficiency, an overly large public sector, unsustainable levels of government debt or all three. The traditional budget, it is claimed, contributed to ever increasing government expenditures by emphasizing planning rather than restraint and its reliance on incremental decision-making. Similarly, the control based financial management systems were designed to ensure probity in government spending and often hindered the pursuit of economy, efficiency, and effectiveness in service delivery. In contrast, NPM reforms sought to establish the values of economy and parsimony (Hood, 1991); encourage mangers to 'do more with less'; to 'restrain leviathan'; and offered a way of 'preventing the public sector from claiming an ever-increasing share of national resources' (OECD, 1995:94). In other words, NPM reforms seek to introduce a cultural change that emphasizes the objectives typically associated with guardianship over those of spending.

This change in emphasis affects budgetary politics at a number of different levels. First, it de-legitimized debate over how to *spend* government money by emphasizing the importance of expenditure cuts and restraint. The emphasis of budget debate turned away from policy development to questions of 'the bottom line' financial results. In doing so it reduced the legitimacy of spenders in budget reformulation networks. Second, it provided guardians with additional strategies in budgetary debates: arguments. Third it limited spenders capacity to argue for their 'fair-share' of expenditure growth. In a climate expenditure growth, spenders could present claims for increased expenditure based on principles of 'reciprocity' and public demand. In the climate of restraint, spenders making these assertions risked being labeled 'rent-seekers' or the captive agents of vested interests. Fourth, demands for collective expenditure restraint require spenders to assume some of the responsibility for identifying possible areas for expenditure cuts and restraint. Budget actors in spending institutions were required to 'ration' and 'save' instead of functioning exclusively as claimants. Finally, these new budgetary objectives established an environment receptive to further reform directed toward expenditure restraint. It strengthened guardians' position to shape and design on-going reforms to the system of government budgeting and financial management.

Budgetary Politics under centralized Expediture Controls

In 1995 the OECD reported that most member countries had established some type of centralised control over aggregate expenditure levels (OECD 1995:95). Although this report focuses primarily on highly visible statements of budgetary targets, aggregate expenditure controls range from statements of 'high-level budgetary targets'; more specific annual policy or portfolio specific expenditure targets and limits; to the adoption of cash limited multiple year agency budgets. As well as varying in the level of detail, these statements also vary in intent. Some are directed toward planning the rate of growth in government expenditures (examples of these planning totals were undertaken in Canada (PEMS) and the UK (PESC) (Wright 1980)); others seek to introduce a trend toward expenditure restraint; while others are the starting point for internal budget negotiations. These types of statements impact directly and indirectly on the relationships between guardians and spenders and their budgetary roles.

Public statements of budgetary objectives – especially those with specific multi-year expenditure limits – restrict both the extent to which either spenders and guardians can set the budget agenda. On the one hand, it limits capacity to argue for higher expenditure levels, or the ability to increase total spending levels through bottom-up, additive processes. But a statement of budgetary targets can also limit the flexibility of guardians to set overall budgetary parameters, and also limit the capacity to respond to short term demands whether economic or political. Experience to date suggests that many of the high-level statements of budgetary objectives are set outside the formal budgetary process (during election campaigns for example). In these instances the primary objective of budgetary negotiations is to determine how to achieve and stay within these pre-stated targets, rather than establishing the expenditure targets that should be achieved.

Delivering the expenditure targets stated in these documents requires changes in both budget organization and procedure. Budget timetables are redesigned to ensure decisions on annual expenditure aggregates and priorities are set *before* decisions on allocation commence. In some countries these specific portfolio targets and limits are decided by a very small number of guardian ministers and officials, and deliberately exclude any participation by spenders. Often these reforms are accompanied by limitations (or indeed the abolition) of the annual bidding process over expenditure on continuing programs (Australia's rolling forward estimates and the British PESC). 'Baseline' expenditures are determined automatically and responsibility for allocating any additional expenditure is devolved to senior representatives of the spending departments (ministers, departmental heads, and senior finance officers). These reforms seek to exclude spenders' from the debates over budget aggregates and thereby increase the authority of guardians.

The establishment of aggregate expenditure controls provides guardian(s) with an external reference point to restrict the expansionary endeavors of spending agencies, and to guide work within the budget agency. A former head of the Australian Department of Finance once stated 'there is nothing that Finance or Treasury loves more than publicly stated expenditure limits, it provides a stick with which they can thrash the spending departments in budget negotiations' (interview Keating, 1998). The promotion of a corporate budget ethos across the public service reduces the efficacy of spenders' arguments based on their position as advocates of particular interest groups. Such arguments are likely to result in an accusation of 'rent-seeking' rather than enhance the validity of spending claims. In addition, clear statements of when and why expenditures have risen or targets not been met, enable an interested public to allocate blame to 'spoilers'. These processes are more likely to locate the political costs of expenditure increases with spenders rather than guardians.

In sum, articulating and developing centralized aggregate expenditure controls typically require the introduction of hierarchical or top-down budgetary processes, that change the position and functions of both guardians and spenders. Many of these reforms deliberately reduce the access of spenders to decision-making on expenditure aggregates and budget formulation. In terms of the more detailed expenditure decisions, spenders are required to perform a rationing function over the expenditures for which they are responsible. At the same time, these reforms increase the strategies and tools available to guardians in controlling claims on the public purse, but require them to engage in quite different budgetary activities. Guardians focus on ensuring bottom-line targets are delivered, rather than on engaging in bidding negotiations with spenders over detailed expenditure levels and policy decisions.

Budgetary Politics in a flexible Resource Management Regime

NPM reforms designed to increase managerial flexibility focus on two primary themes: devolving financial management, and introducing new modes of service delivery. The first increases flexibility to manage a given resource base even within traditional departmental structures. It aims to make public sector service delivery more efficient by reducing 'inefficient' rules and regulations that limit managerial capacity to improve resource management. The second set of reforms extend the notion of 'managerial flexibility' by challenging traditional notions of governance in which departments are exclusive provider of public services. This new mode of governance is based on the implementation of a purchaser-provider split and market-based price-costing methods

(Ewart and Boston 1993). Rather than rely on the advice of internal service providers, governments seek to determine the lowest 'purchase price' of service delivery through competitive tendering, market-testing, full cost accounting systems. The government then enters into a formal contractual relationship with either private or public sector providers to deliver the desired provision at a given price. In theory, this enables government to achieve lower prices, avoid client capture and reduce transaction costs. Whilst public sector providers may 'win' government contracts they should operate as commercial units reconstituted on a profit motive (see work on agencification by Pollitt 1999) and 'hived-off' from the parent department. Under this model, a government 'department' consists of a core group of policy and contract managers. The adoption of either model of 'flexible' management significantly changes the role of and relationship between spenders and guardians.

Devolution of financial management removes some traditional tools of guardianship, while at the same time demanding that spenders assume responsibility for 'rationing' public resources – a function traditionally associated with guardianship. The capacity of central budget agencies to impose detailed financial controls over departmental expenditures stood as the primary tool of traditional guardianship. Claims that these controls were illusionary are probably justifiable, especially as they did not assist resource management (Wilenski 1986: 231). Nonetheless, traditional central controls allowed guardians to limit the uses and directions of public money and guide the flow of public spending in the economy. Under devolved systems of financial management guardians are not devoid of strategies of budgetary control (and could always reclaim some detailed controls should they wish). Rather, their preferred tools are directed toward questions of aggregate expenditure control, and therefore constitute a shift in the focus of guardian-spender budgetary politics away from controls over how agencies spend money.

Further, the devolution of financial management imposes a responsibility on spenders themselves to perform rationing functions. Wildavsky showed that under the traditional budgetary system spenders and guardians performed specialized functions, and that one set of actors could 'push' because the other would 'push back'. In contrast, the financial management system envisaged by NPM reduces the degree of specialization in budgetary functions *and* the countervailing forces in budget negotiations. Program managers, departmental heads and line ministers – those budget actors traditionally classified as spenders – are required to perform the guardianship function within their own areas of financial responsibility (whether classified as envelopes, portfolios, programs, or product-centres for example). Under the traditional model, spenders made demands to guardians or sought to protect their programs from imminent cuts. In a devolved budgetary system, spending agencies must assume responsibility for allocating available funding to new and on-going policies, identifying areas of expenditure restraint and reallocating existing funds. Under this system, budgetary conflict is localized in specific expenditure areas, and played out between a group of actors that would traditionally be classified as spenders.

The introduction of new modes of service delivery has the potential to undermine the institutional basis upon which spenders are defined. The logic defining their behavior in Wildavsky's model (and their value and legitimacy in budgetary negotiations), rests largely on their role as advocates and experts in particular policy areas. Information exchanged between policy and operational sectors in the spending departments produced detailed policy expertise that was unavailable to the budget agencies at the centre of government. In addition, service deliverers operated at the nexus between government and the public, and as such acted as a conduit providing vital feedback into the policy debates. By removing the service delivery functions from spending departments, NPM reforms devalue ‘arguments from expertise’ by the remaining department. The delivery of public services by non-government organizations means policy expertise derived from service delivery will be outside the government and therefore excluded from higher-level budgetary considerations.

Moreover, to the extent that budgetary reforms under NPM have formalized procedures for financial control, they reduce the scope for actor behavior to construct ways of routinizing bargaining relations between themselves. Increased formalization and transparency does not entirely do away with relational politics but restricts opportunities for bargaining. Accrual schedules, for instance, will project consistent depreciation costs up to ten years out and indicate long-term liabilities for which agencies are required to make provision. Spending agencies will often now know years ahead of time their firm allocative estimates of expenses and have little opportunity to augment these amounts – and be expected to incorporate new policy initiatives within their existing allocations. They enjoy flexibility to move resources to areas of highest priority or need, and do not need to gain central budgetary approval to re-deploy their resources. Of course, spenders could decide or allow themselves to become maverick and not comply with these formal requirements. In such circumstances authorization to operate with devolved discretion is likely to be removed or severely curtailed (losing the agency many internal benefits), or additional other penalties may be imposed on recalcitrant agencies (e.g., additional levies if running in ‘debt’ or any ‘over-spending’ may be deducted from their next year’s estimates – as a ‘borrowing’). One indication of the changed logic of rationing is that spending agencies that manage to declare a ‘dividend’ back to the government (a departmental surplus over their costs) are often most likely to be rewarded with carriage of new policy initiatives being considered by government. Paradoxically, the best rationers may be the agencies that have most growth potential.

Reforms directed toward establishing a split between the policy and operational functions of government complicate budgetary politics even further by introducing the potential for a three-way budgetary relationship. Central agencies act as *principal*; line departments become *policy agents*, and the organization contracted to provide government services becomes the *delivery agent*. Moreover, on some programs some multiple policy agents may be involved with hundreds of delivery agents. This clearly does not accord with the simple dichotomy suggested in the guardian-spender model. Increasing the number of service providers fragments the budget process: it is likely to result in more bi-lateral negotiations and temporary relationships. This is especially problematic if service providers are included in budgetary processes. One of the conveniences of the previous system was that one or two guardians dealt with a constant, and relatively small group of spenders. This environment fostered the enduring relationships and ‘decisional heuristics’ referred to by Wildavsky. In the more complex and fragmented environment of NPM, these tools of budget decision making will become more difficult to develop and less reliable.

Decisions about who will bear responsibility for renegotiating service delivery contracts have a direct bearing on budgetary politics. Will the central or policy agencies renegotiate contracts? Will the funding levels for these contracts be renegotiated between central and policy agencies, or between the policy agent and the service deliver? How will prices be set and what benchmarks be used? If central agencies assume the role of 'strategic investor' then they bear responsibility for both generating claims on the public purse (as investor/purchaser) and rationing the available resources between those claims (as guardian) – in other words, they perform both the rationing and claiming functions. While these two functions are not *necessarily* contradictory, they do fall outside the simple classification system offered in the guardian-spender model. If the policy agents remaining in the spending departments assume responsibility for renegotiating contracts, will they behave as guardians of the public purse or advocates for their policy and program recipients? While we can venture answers to these questions on the basis of theory, much more research and is needed to learn the lessons of practical experience.

Assessing the Impact of NPM on Budgetary Politics

The overall thrust of NPM reforms strengthens the position of guardians in budgetary politics. Some reforms remove the traditional tools of guardianship – tight controls over detailed inputs, for example, but in general, they are replaced by a broader set of strategies that expand the tool-kit of guardians, especially in terms of aggregate expenditure control. At the same time, NPM reduces the capacity and legitimacy of many strategies adopted by the spenders, and has the potential to undermine their institutional base. Many budget actors who would be classified as spenders under an institutional analysis of their budgetary role, are being encouraged to behave as budget guardians. Consequently, an extensive NPM reform program is likely to change the balance of power within the budget system in favor of guardians and should, therefore, facilitate increased capacity to impose budget discipline.

Therefore, the simple dichotomy between guardians and spenders is difficult to sustain. More complex relationships are emerging (e.g. three way principal, policy agency, and service agent under purchaser provider split) in which it is unclear who is playing which role in the budgetary process. In addition, many of the NPM reforms deliberately blur the line between institutional *role* and *budgetary function*. Increasingly, guardians will be called on to perform both rationing and claiming functions; with spenders required to ration as well as claim. In other words, new budgetary functions do not necessarily align with traditional institutional roles.

Moreover, NPM reforms have the potential to redefine the areas of budgetary conflict, as well as the areas of agreement. Guardians are able to do more unilaterally (eg. negotiating contracts and establishing aggregate expenditure targets), but they must deal with a more fragmented (and perhaps less stable) community of spenders (especially if service deliverers are including in the budget process). Conflict is likely to be decentralized away from central budget agencies – with former spenders acting as guardians over detailed expenditure allocations. Multi-year budgets are likely to result in more intense budgetary conflict despite negotiations occurring less often. The longer-term impact of NPM reforms on budgetary politics will not become evident until regularized patterns can be identified and the more complex relationships become clearer.

The impact on budgetary politics in specific jurisdictions will vary according to numerous factors, not the least of which are the specific NPM reforms that are implemented and the detailed design of those reforms. As mentioned in the previous sections, individual nations have pursued the NPM reform agenda with different degrees of vigour, against different institutional and historical backgrounds, and with a considerable level of national variation. Determining whether our initial findings hold in any one country or the extent to which they can be generalized will require considerably more research.

Are Wildavsky's Guardians and Spenders still relevant?

What does our research suggest for the continued relevance of Wildavsky's guardians and spenders? Firstly, it demonstrates the continued relevance of this framework. It provides a useful analytical framework for studying budgetary reforms almost 40 years after its development. Its shows that the guardian-spender framework provides a diagnostic methodology for evaluating the impact of NPM on relations between budget actors; and a means of identifying potential imbalances in a country's budgetary system.

However, the above suggests that the definitional basis of Wildavsky's model of budgetary politics is under challenge from the NPM reforms. Wildavsky's definition of budgetary roles was always inexact: but we know that it accorded with both the institutional position of budgetary actors and could vary according to budgetary systems.[2] The breadth of these classifications allowed analyses of budgetary politics to remain grounded, and placed *functional* rather than *institutional* equivalence at the heart of any comparative analysis.

We suggest an expanded classification that differentiates between the individual budget actors *institutional role* (Wildavsky), and the *function*(s) they perform in budgetary negotiations (Schick 1990; 1994). Distinguishing between *role* and *function* should facilitate analysis of budgetary politics at a number of levels. It provides more flexibility in classifying the position of budget actors in the budget process. It suggests that some actors may perform multiple functions in a single stage of the budgetary process (e.g., a central budget agency may simultaneously claim and ration during budget formulation); or perform different functions at various stages in budget decision making (claim during budget formulation but ration during implementation of the budgetary year). It also allows for the possibility that while an actor's institutional role may remain constant, its budgetary functions may change over time.[3] Finally, the distinction enables identification of asymmetry between the institutional role of budget actors, and the functions they are required to perform in the budget process. While such asymmetry may be the deliberate consequence of reform (as in NPM), we believe it is valuable to be able to identify any likely disjuncture between the function a public servant is asked to perform and the incentive or culture associated with their institutional position.

Conclusions: NPM and the Problems of Surplus Budgeting

NPM reforms gained ascendancy during a particular historical context in which governments were wrestling with problems of restraining growth in government spending, reducing budget deficits and cutting debt (Hood, 1991; Wright, 1979; Hood, and Wright, 1981). This drive for fiscal discipline created an environment that required new budgetary methods that strengthened guardians, imposed fiscal limits, and amended the incentive structures shaping bureaucratic behavior. This context clearly dovetailed with the NPM paradigm's emphasis on 'economy and parsimony' (Hood, 1991). NPM reforms contributed to the search for fiscal discipline and budgetary restraint by empowering guardians of the public purse and seeking to ingrain values of the 'bottom-line'. In other words, by shifting the balance of power in the *budgetary* system, NPM reforms contributed to the capacity of governments to budget in an era of restraint.

More recently, however, governments around the world are recording budget surpluses year-on-year, and significantly lower levels of debt (some of which may be directly related to NPM reforms). This development raises questions about whether the mechanisms that helped restrict spending are appropriate or efficacious in an era of surplus. The focus of budget debates has begun to shift from how to cut government debt and deficits, to how to manage and what to do with the budget surpluses (Posner and Gordon 1999; OECD 1999). Any relaxation in the impetus for immediate expenditure restraint is likely to shift the relationship between budget actors by:

- challenging or eroding the strategic position gained by guardians *via* aggregate expenditure controls;
- require more priority-setting (allocative or rationing) decisions to be undertaken on a policy basis; and
- legitimize spender arguments for broader inclusion in the budget process.

Paradoxically, having now delivered surpluses the dominant position enjoyed by guardians will come under challenge and their ability to control aggregate expenditure is likely to be eroded. New priorities can ostensibly be afforded and governments may be forced by political pressure to relax their previous patterns of stringent rationing. Even relatively small policy-driven increases in spending will soon wipe out the relatively small budget surpluses recorded to date.

Table 2 suggests some of the budget policy options available to governments in this new budgeting environment, and their implications for the budgetary politics.[4] While spending is the clear alternative to saving annual budget surpluses, expenditure can be targeted toward different strategies, each of which has implications for the government's future fiscal capacity and budgetary politics. No one option is mutually exclusive and some countries are adopting more than one alternative. Yet, the survey in our table suggests that each option produces quite different political dynamics and imposes different requirements on budget actors. Delivering the desired options of a particular government is likely to require further changes in the budgetary system and may shift the balance of power in budgetary politics.

Given the findings of our research it is likely that the new budgetary environment will reveal diminished capacity in those budgetary actors operating as spenders-claimants. Following the logic of both Schick and Wildavsky, we expect the difficulties of budgeting in this new 'surplus environment' will result in either improvizational or *ad hoc* budgeting, or produce renewed impetus for budgetary reforms that redress the any imbalance between budget spenders and guardians.

Table 2: Strategies and Options for Continuing Budget Surpluses

Strategy	Options	Potential Implications
1. Aim to Accumulate the surplus; institutional primacy of guardians in setting tight aggregate limits	1.1. Maintain as liquid reserve	A conservative and inactive option in which surpluses are retained as an accumulated financial asset base of the government, but not otherwise utilized. Assets in the liquid reserve are credited against gross debt for calculating lower net debt. There are implicit costs of interest foregone if not utilized and potential erosion of the value of the reserve by inflation. This option is usually not considered preferable in modern economies.
	1.2. Invest or lend	Surpluses can be accumulated for lending to the public or private sector. Government acts as a banker, potentially utilising the government's ability to borrow at lower rates than commercial borrowers. This option can impact on private capital markets and can be exploitative of tax payers. The financial asset base is also counted against gross debt for lower net debt. However, the asset base size and its easy liquidity can produce pressure for one-off grants to spending departments. The option is unlikely to work indefinitely. The purpose of accumulating surpluses will not necessarily be apparent. Perhaps the option is only suitable for simple economies or where governments can extract rents from a resource.
2. Aim to retire public debt: spenders constrained by the long-term strategy of the guardians	2.1. Reduce principal debt levels	Debt principal is progressively retired by governments paying down from each surplus. This is a conservative, financially risk-free option. Most appropriate when debt levels and interest rates are high. Can be used to reduce conflict between guardians and spenders if additional funds are released as lower interest payments are required. Surpluses can be disguised or technically avoided by calculating an amount for debt retirement within the annual budget as an expenditure item. Alternatively the surplus can be declared and debt paid down after the budget year. Available to complex economies but probably only over the medium-term and subject to the economic cycle.

3. Aim to reallocate surplus for other strategic purposes; may require increased input from spenders	3.1. Tax reductions	Tax reductions can be used as an electoral incentive or to reduce the size of government. Political/economic decisions can be made on the intended purpose, nature, extent and life-span of tax reductions. However, changes to taxation will have uncertain expansionary or contractionary macro-economic impacts depending upon reaction of corporate and consumer sectors (i.e. balance between private savings and private expenditure). There will also be greater pressure on budgets as the available surpluses decrease. Consequently not risk-free in either electoral or economic terms. Note that tax reductions can be illusory given the mix of taxes or the incidence of tax creep under conditions of inflation.
	3.2. Increase expenditur e on recurrent items including transfers	Increased expenditures can be presented as a dividend for past parsimony. Governments can re-prioritize their outlays and the promise of future expenditures may be electorally appealing (and constitute an incentive for governments deciding on current expenditure cuts). There will be immediate pressure on the size of the surplus and perhaps pressure on maintaining new recurrent allocations. Additional spending will increase the size of government. Will also have uncertain expansionary or contractionary macro-economic impacts depending upon the use of funds and market reactions. Although appearing benevolent, the option poses some electoral and economic risks. Requires a capacity to ration requests for new expenditures on policy benefits vs. loss of surplus criteria, otherwise previous pattern is re-established.
	3.3. Increase expenditur e as strategic investment	Guardian agencies provide incentives to enable spending and delivery agencies to ‘pay their way’ and reduce their dependence on general revenue (i.e. increase their future ability to make income-generating investment expenditure and/or reducing labor and other cost-cutting efficiencies). In Australia ‘resource agreements’ provided additional resources to reduce the long-term dependence on the budget for resources. But, spending agencies have the incentive and ability to disguise recurrent costs as investment expenditure if resource agreement monitoring is not effective.

Many OECD nations have shown remarkable capacities to impose fiscal restraint and create budget surpluses. Success has been achieved by a combination of political will, a disciplined bureaucracy and electoral acceptance. Arguably, some governments have managed this process while addressing issues of equality of sacrifice and providing partial forms of compensation for austerity measures. This discipline, however, has in turn produced an emerging orthodoxy that views budget surpluses as the prime objective of government policy, as opposed to one of its outcomes. Such surpluses are delivered to enhance the confidence of the financial markets in government performance. How governments manage and dispense their surpluses will not only impact on the winners and losers in society, but often will determine the survival of the government itself. To remain in office governments have shown they are increasingly prepared to lock themselves into restrictive fiscal strategies that will further constrain their policy discretion. 'Continuing to manage less' may be soon become the new motto of governance.

Notes

[1] The simple two-player game depicted in Wildavsky's spender-guardian dichotomy has enabled collective choice theorists to analyze budgetary politics using a two-player prisoner's dilemma that broadly accords with Niskanen's bureau-sponsor model of the budgetary process. The main difference between these two models results from the respective models of human behavior that underpin each (see Wildavsky (1974:189-94) for Wildavsky's comments on 'political rationality').

[2] Wildavsky used the terms 'spender' and 'guardian' quite loosely in his writings. Participants are variously classified as 'guardians'. 'reviewers', 'cutters' or 'savers'; and as either 'advocates' and 'spenders'. In his collaborative work with Davis *et. al.* (1966), Wildavsky dismissed the differentiation between these categories completely

[3] We hypothesise that the *institutional roles* are likely to remain relatively constant over time, while the *function(s)* performed by budget actors can and will change. Validating this hypothesis requires further research.

[4] Extracted from Wanna, Kelly and Forster (2001) *Managing Public Expenditure in Australia*, Allen & Unwin, Sydney, forthcoming.

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