

## BOOK REVIEW ESSAY

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John Wanna, Joanne Kelly and John Forster (2000) *Managing Public Expenditures in Australia*. St. Leonards: Allen and Unwin. 352 pp.

Published works on public sector budgeting in the U.S. are numerous and include some that have become classics known around the world, e.g., Aaron Wildavsky's *The Politics of the Budgetary Process* first issued in 1964. Often in the past when I have searched for comprehensive works on public budgeting in other nations I have been disappointed. However, in Europe and elsewhere a number of studies on budgeting have appeared in the past decade. While much has been written about Australian accounting and financial management, with quite a bit of analysis of the reforms undertaken over the past several decades, until *Managing Public Expenditures in Australia* appeared in 2000 there was no work on budgeting in this nation that might be considered a classic. While only time will tell about the utility and staying power of this work as a textbook and research reference, it falls into a category of "potential classic" in my view. I expect there will be sufficient demand to compel the authors to publish revised editions over the years to keep the book relevant to changes in Australian budgeting in the future.

John Wanna is a well-known and widely respected scholar in Australia and internationally. He is coeditor of the *Australian Journal of Public Administration*. He has conducted research on budgeting in Canberra for a number of years along with colleague John Forster, and more recently with Forster and Joanne Kelly. For one year Wanna was a visiting scholar in the Department of Finance of the government of Australia as part of a research project on national budgeting sponsored through the Centre for Australian Public Sector Management (CAPSM) at Griffith University in Brisbane. Forster is former Director of CAPSM and co-editor with Wanna of *Budgetary Management and Control*, (Melbourne: Macmillan, 1990). Joanne Kelly is former CAPSM research associate now serving as Principal Research Officer in the Treasury Board Secretariat in Ottawa. Wanna and Forster organized a book with OECD on the changing role of central budget agencies in ten countries that will appear in 2003. Recently, Wanna has been part of a research team advising the Scottish government on participatory forms of budget formulation and authorization. Other books by Wanna and co-authors include *Public Policy in Australia* (1993) and *Public Sector Management in Australia* (1999).

This book is a *tour de force* historical and analytical compendium of budgeting, financial management and managerial reform in Australian national government. It is comprehensive, well organized and well written. Citations are numerous and appropriate, demonstrating that the authors have read and understand the literature on politics, public budgeting and management in Australia and elsewhere. An excellent index is provided along with a useful list of abbreviations and acronyms. The book covers the Australian political, budgetary, financial and managerial reform experience from the 1960s to 2000 -- an ambitious undertaking. The authors begin with an introduction to public expenditure management and budgetary behavior, followed by a chapter explaining the Australian budgetary system. Succeeding chapters provide detail

on the promise of budgetary reforms of the 1960s and 1970s, the three roles of the Treasury, Treasury reform, the paradox of the Fraser years (more control and more spending), budget reform under the Hawke government, the Financial Management Improvement Programme (FMIP) of the 1980s, the Keating government spending spree and resultant deficits, expenditure management under the conservative Howard government, and analysis on cutting budgets and managing surpluses. The final chapter addresses the question: "Is Public Expenditure Better Managed Now?" They conclude that while the implementation and impact of reforms lags their introduction by a considerable margin, Australian expenditure management is better managed now than it was before the era of significant reform began. However, they caution, " Whether Australia's path of financial-driven reforms is good, bad or neutral will depend largely on cultural and ideological beliefs - what it is that one expects of government and how one views the nature and role of the public sector." (313) They also conclude that the history and flow of Australian budgeting has been and is incremental generally, "...but it is *not just* incremental...there is scope for more significant adjustments, for periodic re-allocation and for strategic considerations..." that produce non-incremental budgetary and financial management change. Their conclusion holds for most jurisdictions, including U.S. state and federal government budgeting.

What is most interesting and compelling about the story told by Wanna, Kelly and Forester? As all budgeteers or former budget analysts know, the devil is in the details. The authors start by pointing out an essential contradiction with respect to public policy-making and budgeting. Does policy drive budgets or does budgeting drive policy? "[B]udgets *make* governments powerful, yet budgets exert enormous power *over* governments. The instrument that should be a tool of government instead becomes its organising principle and its focus...the budget tail wags the government dog." (Wanna, Kelly and Forester, 2000: 3) Policy decisions frame the obligations that budgets must satisfy, but doing so often commits a high percentage of revenues to existing commitments, leaving little room to fund new policy initiatives. Under the worst of circumstances, revenue shortfalls force cuts in the existing base and withdrawal of services. Governments and budgets are slaves to economic circumstance. The best budgetary plans and controls cannot prevent deficits during economic slumps. And, paradoxically, when economies provide prosperity, pent-up spending and service demand and political preferences for responsible fiscal policy in the form of tax cuts eat up surpluses quickly. This scenario has played itself out in Australia, and is familiar to students of fiscal policy and budgeting in the U. S. and elsewhere.

The politics of budgeting in Westminsterian systems including Australia are carried out in secrecy not found in separation of powers systems such as those of the U.S, Switzerland and other nations. The budget and especially revenue policy changes are kept secret until tabled by the government. Thus, much of the inevitable budget wrangling and trading off involved in budget formulation takes place in secret meetings away from the view of the political opposition, the media and the public. Understanding this dynamic is essential for students of budgeting in Westminsterian systems. The authors indicate that budget secrecy and the centrality of budgetary influence to the Prime Minister, cabinet and party in power places the media in an adversarial role towards the government in many circumstances. When the budget is presented to Parliament enormous attention is fixed on modifications in tax policy and transfer payments. However, despite this attention, enduring focus on *public expenditure*

*management* is absent (an explanation of their definition of public expenditure management is provided in clear and concise terms, assisted by useful graphics). Why is this so? The authors assert that the answer lies in the fact that Australia has run a tight budget ship and budget deficits and surpluses have not been large compared to other nations. They point out however that Australian government spending has continued to grow as a percentage of GDP, despite the promises of successive governments and Prime Ministers to reverse this trend -- does this sound familiar?

The book advances several key arguments. "Budgets and the attendant processes have emerged as the main internal organising mechanism of the modern state." (11) "One after another, Australian governments have been satisfied with their budgetary systems and processes. Indeed, dissatisfaction seems a perennial malady." (12) This has caused a continual search for better systems and practices. "Thus evolution led by pragmatic experimentation becomes the norm in budget reform." (13) And, as elsewhere, budget reform is highly political -- reform inevitably produces winners and losers. Additionally, winning is never permanent. The next government can and often does reverse many of the budgetary policies of its predecessor(s).

Much of the book is devoted to highly interesting description and analysis of the reform initiatives of successive governments. A critical difference between reform in Australia and that of separation of powers systems will be evident to knowledgeable readers. Concentration of political power under a government that rules Parliament enables more ambitious, innovative and, in some cases, more comprehensive reform than generally is possible under a separation of powers system (my conclusion -- the authors provide a more complex explanation that partially contradicts it). This alone makes a recounting and scrutinizing of the stream of Australian reform initiatives important reading to international scholars of budgeting. The reason this book is essential reading owes primarily to the fact that reforms contemplated but not tried in earnest in the U. S. and elsewhere have been executed in Australia, with consequent learning and evolution the result.

On this point the authors explain that, compared to other nations, reform in Australia has been driven more by public administrators rather than by ministers. And reform was not based on theory (unlike New Zealand's public choice-driven reform agenda for example, or Switzerland's NPM-orientation). "Rather, a culture developed among senior guardian officials conducive to reform-minded initiatives...ministers gave their imprimatur or tacit acceptance...[but] officials drove the reform agendas...it is also clear that they were not always sure of where they were heading or the consequences of their actions." (313) The Australian experience as recounted in the book is similar to the program budget reform experimentation that the author of this review participated in as a budget analyst for the California Department of Finance during the Reagan administration. I submit that most, but not all, government budget reform is *driven* (i.e., planned and executed) by high level budget officials -- but only after elected officials have issued political license and provided the necessary rhetoric to pave the way for change.

While it is not possible to recount with any degree of comprehensiveness the story of the Australian budgetary experience in a short book review -- and to do so might even reduce incentive to read the book -- some of the more interesting developments and consequences may be highlighted. The Treasury developed what became known as

forward financial estimates (FE) to facilitate planning and control in the 1960s and used this mechanism internally in the way they were first constructed through the mid-1970s. Treasury forward estimates were "unofficial" and not viewed by Treasury officials as precise or time consuming to prepare. More importantly, they were not intended as any type of commitment to spend. Preparation and use of estimates for existing programs was routine, involved few numbers of staff, and was invisible to the political environment. A post-WW II penchant for short-term attempts at macro-economic management by Treasury limited its attention to budget management and control anyway. Consequently, forward financial estimates were not viewed as very important by Treasury or anyone else. However, by the early-1970s the role and importance of forward estimates changed: they began to be circulated and discussed in cabinet.

In 1971, with support from PM McMahon, the Treasury announced a new and more open process for FE preparation. The intent was straightforward -- to provide government better information for decision making. Spending departments became more involved with Treasury to make forward estimates accurate. Somewhere along the line department estimates began to be approved by ministers, providing something not originally intended -- a perception of some form of commitment. And it the micro-politics of budgeting (between departments, agencies and Treasury) informal projections evolved into "declared bids" for future resources. We observe here what we understand from research (McCaffery and Jones, 2001: 203-224) and experience -- good budgeteers learn quickly how to use new systems to their advantage the world over. Not surprisingly, from its perspective of spending controller, Treasury was not particularly keen on having forward estimates viewed as any sort of commitments. None-the-less, a succession of Treasurers promoted the use of forward estimates.

The nature of the process for estimates planning evolved to greater complexity. Spending, revenues and staffing were projected and aggregated by Treasury, a preparation cycle emerged, and staff time devoted to preparation and review of estimates expanded greatly. The first Forward Estimates Report was issued by Treasury in 1972. In 1975 an Expenditure Review Committee of Cabinet was established to discipline the expenditure planning process. By 1977 a Task Force on Forward Estimates criticized the accuracy of the FEs in the out-years. Because Treasury had not regarded the FEs as very important, accuracy was an inevitable problem. In addition, economic uncertainty and high rates of inflation in the mid-1970s (due largely to oil shock) raised havoc with projection making in the public and private sectors. Treasury grew frustrated and "disillusioned" with the bottom-up FE process. A survey of departments in 1983 revealed similar sentiments. Still, control agents behave predictably: "Paradoxically, Treasury became increasingly interested in using expenditure estimates to provide expenditure control at the time the deficiencies with the estimates process began to emerge..." (66) During the evolution of the FE process, departments still had to negotiate their base-line budgets annually internally and with Treasury, and actual budgets seldom matched the forward estimates. So, what real purposes were served by having the estimates? More on this is provided below.

In 1983 the government agreed to publish the FE Report to set formal budget targets. Department estimates were to become precise with attendant accountability. Due to complex machinations in Australian politics, the role of Treasury in the budget process had been taken over by the Department of Finance (DOF) by this time. Political frustration with the intransigence of Treasury to its role as conservator of the public fisc

and other factors led the Fraser government to split it in 1976 and move its budget responsibilities to a quickly created DOF. In an interview Fraser later explained that he had punitively "[cut] them down to size." The story of this split is bloody and will not be recounted here. DOF was intent on establishing its own process for estimating and deciding upon what were termed running costs, i.e., the base-line budgets of departments and agencies.

Up to this point in history Australia had been relatively unambitious with respect to experimentation with budgetary reform of the types implemented in other nations, PPBS, ZBB, etc. This was to change in the 1980s. This change has to be understood in context. Treasury had attempted micro-economic management and played the roles of accountant and controller under a succession of conservative governments. It then responded begrudgingly to the spending splurges of the McMahon and then the Whitlam Labor government elected in 1972 after 25 years of Liberal (conservative) rule. After 1976 with DOF at the budget helm, the Fraser Coalition government (1975-83) professed control of spending while doing the opposite, as noted. A group referred to as the "Razor Gang" attempted to cut government functions in 1980-81 as a mean of reducing spending but was not successful. However, they left a legacy that arguably influenced the perceptions and behavior of future governments. The DOF moved steadily to institutionalize its role as budget examiner and controller, applying a "hands-on" style of management, essentially carrying on the practices of the Treasury it succeeded.

In its first term and in more pronounced fashion in its second term through 1983 the Fraser government recognized the need for expenditure control. It chose as one mechanism to achieve its goal making expenditure estimates "more accurate and rigorous." Out-year control became important. Because by this time approximately two-thirds of expenditures were non-discretionary, the problem of expenditure control was compounded. High interest rates in the 1970s further exasperated the problem of deficit avoidance. As early as 1976 politically expedient in-year across the board budget cutting had been practiced. Top-down spending and personnel ceiling also were imposed. Departmental cash limits were controlled by DOF. The "latitude" of departments to shift spending to future years was constrained. The Fraser government also tried to avoid making new program commitments. Despite these efforts, the commitments of previous governments expanded spending in non-discretionary accounts. The die had been cast to expand future spending unless commitments were rescinded or some other tack was to be taken.

Following appointment of a new Finance Minister (Guilfoyle) in 1980, a process known as "bi-lateral negotiations" was established to enable DOF and departments to negotiate budget decisions. Later in the mid-1980s "portfolio budgeting" was introduced. Similar to practice in Canada at this time, a form of what the Canadians termed envelope budgeting was employed in Australia to set limits on what could be spent in total in the various ministry portfolios. Spending limits were established by government from the top down. The Reagan administration in the U.S. also was in the process of implementing top-down budget ceilings through the Office of Management and Budget (OMB) under Director David Stockman during this period. And, of course, the Thatcher government in the UK was developing and implementing its reforms during this period as well. In Australia, under Guilfoyle program-based budget review was employed to some extent. However, political fortune did not smile on a future of program budgeting

after the election of March 1983. As is the case for many public sector reforms, once their champions leave office the momentum for implementation is lost or reversed.

A significant event at this time was the issuance of the Reid Report that noted an absence of managerial competence and inadequate relationships between departments and control agencies. The report recommended a number of changes including adoption of a UK style financial management improvement program (FMIP). The Reid report further suggested budget simplification and greater budgetary assistance from the DOF to departments, and greater discipline to cause departments to live within their budget allocations. How were the many recommendations of the Reid report to be implemented? Was increased delegation of authority also intended? Well, along came Hawke. If delegation was in mind, it would not be the direction first taken by the new Labor government.

Bob Hawke (Labor) was elected Prime Minister of Australia in February and took office in March 1983. In many ways his election was a bell-weather event in the fiscal, financial and political history of Australia. Hawke faced huge deficits. The economic outlook was not promising. He organized a smaller 13 member inner cabinet, and a "troika" consisting of the PM, Treasurer and Finance Minister took control of the reins of government. The PM created a formal review process under a reestablished Expenditure Review Committee (ERC). Hawke's personal style was to negotiate, make decisions and move on to other agenda items he confronted. Clint Eastwood reputedly once said to a director who wanted to re-shoot a scene, "Was it in focus? OK. Let's move on." Hawke wanted to "move on" to regain what he perceived as a tremendous loss of discipline and control over government growth and spending. A centralized decision structure facilitated "moving on" -- Paul Keating was appointed his Treasurer and John Dawkins his Minister of Finance. Dawkins was given ministerial oversight over Finance and the Public Service Board (PSB). His successor, Peter Walsh, inherited this position of power and became known for his crusade against "middle class welfare." Labor was prepared to "take budget rectitude and management seriously." (159) Walsh became the leader of this endeavor, with Hawke and Keating deferring to him on expenditure control issues and decisions.

Aggregate spending limits and savings targets were put in place. The authors explain that while budget reform and expenditure control initiatives were put in place simultaneously under the Hawke government, these methodologies flowed forth in separate streams. The ERC managed the expenditure limitation, reduction and enforced savings efforts. During the 1984 elections Hawke enunciated what became known as the "Trilogy" commitments. Much like George Bush's statement about "read my lips -- no new taxes" -- the Trilogy became the benchmark commitment of the second Hawke government through 1987. What did Hawke promise, "apparently without... consultation" in his now famous radio interview? (One wonders what Walsh thought of exactly at the moment when he heard the pronouncement)."The 1984 'Trilogy' commitments were: not to increase taxes or expenditure as a percentage of GDP over the life of the Parliament and to reduce the budget deficit as a percentage of GDP over three years (subject to some important 'let-out' clauses)." (163) Whether intended as a political "gimmick" or not, friends and critics alike were eager to hold Hawke to his promises. Huge savings were announced in budgets (e.g., \$1.2 billion, \$1.5 billion). An Efficiency Scrutiny Unit (ESU) was established. The efficiency finding approach of the ESU according to David Shand (1987) was "crash through or crash." (187) In 1983-84

numerous technical budget reforms were instituted by Finance. The best known reform was Portfolio budgeting, as mentioned above. The authors note that portfolio budgeting was perhaps not the approach originally intended. "Arguably, the Hawke government resorted to portfolio allocation while intending to implement *program management and budgeting* (PMB)." (174) PMB required program structures (much like the program elements in PPBS) to be set for all departments. Without going into the details, this was an enormous undertaking the government claimed to have succeeded at by the end of the 1980s. However, considerable dissenting opinion on this point has been registered both by academic and practitioner critics.

To catch the link to the tale about forward estimates (FEs) rendered above without a conclusion, by 1992 the process was judged by a Task Force on Management Improvement to have been, "one of the most successful reforms of the 1980s." (177) Under the Hawke government the process had been tightened so that estimates were more reliable. The discipline and accuracy of FEs has been viewed as the "lynchpin" of the Hawke budget reforms, and a "spur to devolution...Improved forward estimates became the preferred system of outlay control." (178) The key was rolling the forward estimates into the budget estimates to increase budget certainty and stability. Also critical, Finance "imposed" its calculations as the basis for formulating the forward estimates. By the introduction of the 1987-88 Budget, "wish lists" had been converted to "hard figures." If no policy changes were endorsed, FE figures could become the budget. Increased certainty, reliability and simplicity were put into practice. Politically, Hawke demonstrated that a Labor government could be fiscally conservative. (181) While the Trilogy criteria were not pursued easily or painlessly (cuts in transfers to state governments were large), from 1987-88 to 1990-91 Australian governments achieved budget surpluses.

The book is excellent in telling both the political and budgetary-managerial story of Hawke's four terms in office, the transition to the Keating "roller-coaster" years of surplus and deficit and the ambitious initiatives of the Howard conservative (coalition between Liberal and National parties) government. Implementation of the FMIP and its discontinuance, the experimentation with "running cost" budgets and carry-forward provisions, increased delegation of authority to departments and agencies and the new public management-oriented reforms of the late 1980s and 1990s (the term new public management does not appear in the book), the practice of annual "clawbacks" where varying percentages of the budget base were withheld annually, implementation of output and outcomes budgeting (outcomes as the goals of government, outputs as the goods and services to be "bought" by government and Parliament), the difficulties of measurement, the evolution to Parliamentary contracts for services and pricing policy, the move to accrual and output-price budgets, initiatives to allow departments to retain user charges and other self-generated revenues, efforts to instill program evaluation tied to budgeting (that were not successful), the move to more business-like financial and management practices under the conservatives in the last half of the 1990s -- all the detail of why these experiments were undertaken and the evaluation of results is described and analyzed clearly. Well-reasoned analysis (and citation of supportive sources) of why various reforms were undertaken and how successful they were in meeting government objectives is richly provided.

The last chapters contribute cogent explanation of why the public sector and budgets expand over time, comparing various Australian budget years in terms of spending as a

percent of GDP, and demonstrating why the tasks of deficit reduction and management of surpluses are so difficult to manage. From their analysis one may conclude that more success has been achieved over time in reducing deficits than in sustaining surpluses. This conclusion may be applied to U.S government experience and that of many other nations. Their analysis is based on the Australian experience but it relates to budgeting internationally, as the authors intend. The book closes with a brief discussion of the implication of their findings for budgeting in developing nations. This is the one part of the book that needs to be rethought (not that it is wrong -- just incomplete), and expanded with greater attention to the experience of specific developing nations -- should the authors choose to take on this challenge in a revised edition.

Overall, *Managing Public Expenditures in Australia* achieves its goals in description and analysis of an era of budgetary and managerial experimentation that is perhaps more interesting than that of any other nation. The lessons to be learned from the Australian experience are rendered explicitly by the authors in their final chapter. This is a must read for students and scholars of budget, financial management and managerial reform in the public sector the world over.

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