



# The Reality of Budgetary Reform in OECD Nations

## Trajectories and Consequences



EDITED BY

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# Abbreviations

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|        |  |
|--------|--|
| AD     | Administrative Department (Denmark)                          |
| AGBs   | autonomous governing bodies (Netherlands)                    |
| AME    | Annually Managed Expenditure (UK)                            |
| BAPA   | Budget and Accounting Procedures Act (US)                    |
| BD     | Budget Department (Denmark)                                  |
| BEA    | Budget Enforcement Act (US)                                  |
| BRU    | Budget Reform Committee (Denmark)                            |
| CASA   | Civil Aviation Safety Authority (Australia)                  |
| CBAs   | Central Budgetary Agencies (Australia)                       |
| CBA    | cost-benefit analysis  |
| CBA    | central budget agency  |
| CBO    | Congressional Budget Office (US)                             |
| CFIS   | Crown Financial Information System (NZ)                      |
| CFO    | chief financial officer                                      |
| CSD    | Civil Service Department (UK)                                |
| CSR    | Comprehensive Spending Review (UK)                           |
| DBAS   | Digital Budget and Accounting System (Korea)                 |
| DEL    | Departmental Expenditure Limits (UK)                         |
| DGP    | Directorate General of Budget (Spain)                        |
| DGT    | Dipartimento del Tesoro [Department of Treasury] (Italy)     |
| DPEF   | Economic and Financial Plan (Italy)                          |
| DPRs   | Departmental Performance Reports (Canada)                    |
| DR     | Danish Regions   |
| Ecofin | Economic and Financial Affairs Council of the European Union |
| EDP    | excessive deficit procedure                                  |
| EDX    | Ministerial Committee on Public Expenditure (UK)             |
| EFPC   | Economic and Fiscal Policy Council (Japan)                   |
| EMS    | European Monetary System                                     |
| EMS    | Expenditure Management System (Canada)                       |
| EMU    | Economic and Monetary Union                                  |
| ERC    | Expenditure Review Committee of Cabinet (Australia)          |
| ERM    | Exchange Rate Mechanism                                      |
| ESEF   | Economic Structure Enhancing Fund (Netherlands)              |
| ESRC   | Economic and Social Research Council (UK)                    |

|         |  |
|---------|--|
| EU      | European Union   |
| FAHCSIA | Department of Families, Housing, Community Services and Indigenous Affairs (Australia) |
| FBO     | final budget outcome   |
| FILP    | Fiscal Investment and Loan Program (Japan)   |
| FIS     | financial information system   |
| FMCG    | Financial Management Coordinating Group (UK)   |
| FMI     | Financial Management Initiative (UK)   |
| FMIP    | Financial Management Improvement Program (Australia)                                   |
| GAAP    | generally accepted accounting principles   |
| GAO     | Government Accountability Office (US)  |
| GDP     | gross domestic product   |
| GFS     | Government Financial Statistics (NZ)   |
| GMRA    | Government Management Reform Act (US)  |
| GPRA    | Government Performance and Results Act (US)  |
| GRH Act | Gramm–Rudman–Hollings Act (US)   |
| GST     | Goods and Services Tax (Australia)   |
| HRDC    | Human Resources Development Canada   |
| ICT     | information and communication technology   |
| IGAE    | General Controller of Central Government (Spain)                                       |
| IGR     | Intergenerational Report (Australia)   |
| IMF     | International Monetary Fund  |
| IT      | information technology   |
| JCPAA   | Joint Committee of Public Accounts and Audit (Australia)                               |
| KRAs    | key result areas (NZ)  |
| LDP     | Liberal Democratic Party (Japan)   |
| LGD     | Local Government Denmark   |
| MBO     | Management by Objectives (US)  |
| MEF     | Ministry of Economy and Finance (Italy)  |
| MEH     | Ministry of Economy and Finance (Spain)  |
| MP      | Member of Parliament   |
| MPB     | Ministry of Planning and Budgeting (Korea)   |
| MPO     | Management and Personnel Office, Cabinet Office (UK)                                   |
| MTEF    | medium-term expenditure framework (Korea)  |
| MTFS    | Medium-Term Financial Strategy (UK)  |
| MYEFO   | Mid-Year Economic and Fiscal Outlook (Australia)                                       |
| MYOPs   | Multi-Year Operational Plans (Canada)  |
| NCA     | National Commission of Audit (Australia)   |
| NCA     | National Court of Audit (Netherlands)  |
| NCT     | New Control Total (UK)   |
| NFMP    | National Fiscal Management Plan (Korea)  |
| NPM     | new public management  |

|        |  |
|--------|--|
| NSC    | National Security Committee (Australia)                  |
| NZSF   | New Zealand Superannuation Fund                          |
| OBEGAL | operating balance excluding gains and losses (NZ)        |
| OECD   | Organisation for Economic Co-operation and Development   |
| OFFM   | Office of Federal Financial Management (US)              |
| OMB    | Office of Management and Budget (US)                     |
| PAYGO  | pay-as-you-go (US)                                       |
| PAR    | program analysis and review (UK)                         |
| PARs   | Performance and Accountability Reports (US)              |
| PART   | Program Assessment Rating Tool (US)                      |
| PBB    | performance-based budgeting (Korea)                      |
| PBO    | Parliamentary Budget Office (Canada)                     |
| PCO    | Privy Council Office (Canada)                            |
| PEEFO  | Pre-Election Economic and Fiscal Outlook (Australia)     |
| PEMS   | Policy and Expenditure Management System (Canada)        |
| PES    | Public Expenditure Survey (UK)                           |
| PESC   | Public Expenditure Survey Committee (UK)                 |
| PEWP   | Public Expenditure White Paper (UK)                      |
| PFI    | Private Finance Initiative (UK)                          |
| PMDU   | Prime Minister's Delivery Unit (UK)                      |
| PMO    | Prime Minister's Office                                  |
| PPBS   | Program and Performance Budgeting System (NZ)            |
| PPBS   | Planning, Programming, and Budgeting System              |
| PSAs   | Public Service Agreements (UK)                           |
| PSBR   | Public Sector Borrowing Requirement (UK)                 |
| RAB    | resource accounting and budgeting (UK)                   |
| REA    | Council of Economic Advisers (Netherlands)               |
| RGS    | General Budget and Accounting Office (Italy)             |
| RPPs   | Reports on Plans and Priorities (Canada)                 |
| SABP   | Self-Assessment of Budgetary Programs (Korea)            |
| SOE    | state-owned enterprise                                   |
| SOI    | Statement of Intent (NZ)                                 |
| SRAs   | Strategic Results Areas (NZ)                             |
| SSRs   | Statements of Strategic Results (NZ)                     |
| TME    | Total Managed Expenditure (UK)                           |
| USSGL  | US Standard General Ledger (US)                          |
| VBTB   | From Policy Budgeting to Policy Accounting (Netherlands) |
| ZBB    | Zero-Base Budgeting (US)                                 |

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This book builds on our previous research endeavours to analyse the significance of budgetary reform in developed economies (see John Wanna, Lotte Jensen and Jouke de Vries, *Controlling Public Expenditure*, Cheltenham, UK and Northampton, MA, USA, Edward Elgar, 2003). The previous book explored the dynamics of central agency controls within changing budgetary processes and against outcomes, while this book examines the effectiveness of the reform architecture in each chosen country. We have had support from a number of collaborative organizations and wish to acknowledge their support, including: the Department of Management, The Hague Campus, Leiden University (The Netherlands); the Research School of Social Sciences, the Australian National University (ANU) (Canberra, Australia); the Department of Politics and Public Policy, Griffith University (Brisbane, Australia); and the Department of Government, University of Copenhagen (Denmark). They all assisted in making this book possible and with administrative and financial support. The Australian Research Council, through the GovNet research network, also contributed limited financial support to the project.

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John Wanna, Lotte Jensen, Jouke de Vries

# Contents

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|  |     |
|--|-----|
| <i>List of contributors</i>  | vii |
| <i>Abbreviations</i>   | ix  |
| <i>Acknowledgements</i>  | xii |
| 1 Investigating the reality of reform in modern budgeting<br><i>John Wanna</i>   | 1   |
| 2 Budget reforms in the United States: a 'perfect storm' for a<br>new wave of deficit-reduction reforms<br><i>Alfred Tat-Kei Ho</i>                          | 18  |
| 3 Budget reform in the United Kingdom: the rocky road to<br>'controlled discretion'<br><i>Colin Thain</i>  | 35  |
| 4 Australia after budgetary reform: a lapsed pioneer or<br>decorative architect?<br><i>Lewis Hawke and John Wanna</i>  | 65  |
| 5 Discerning the consequences and integrity of Canada's<br>budget reforms: a story of remnants and resilience<br><i>David A. Good and Evert A. Lindquist</i> | 91  |
| 6 Budgeting in New Zealand after the reforms: from radical<br>revolutionary to cautious consolidator<br><i>Richard Norman and Derek Gill</i>                 | 122 |
| 7 Budget reform in Japan: continuous efforts but still a long<br>way to go<br><i>Masahiro Horie</i>  | 147 |
| 8 Korea's four major budgetary reforms: catching up with a<br>big bang<br><i>John M. Kim</i>   | 174 |
| 9 Budget reforms in Denmark: unheralded but nevertheless<br>effective<br><i>Lotte Jensen and David Fjord</i>   | 193 |
| 10 Budget reform in The Netherlands: sadder but much wiser now<br><i>Jouke de Vries and Ton Bestebreur</i>   | 221 |
| 11 Budget reforms in Spain: anything else beyond budget<br>discipline?<br><i>Xavier Ballart and Eduardo Zapico</i>   | 240 |

|    |  |     |
|----|--|-----|
| 12 | Budget reform in Italy: importing ‘enlightened’ ideas in a difficult context | 260 |
|    | <i>Francesco Stolfi, Chiara Goretti and Luca Rizzuto</i>                     |     |
| 13 | The work in progress of budgetary reform                                     | 281 |
|    | <i>John Wanna</i>  |     |
|    | <i>Index</i>   | 299 |

# 1. Investigating the reality of reform in modern budgeting

**John Wanna**

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Human beings have been reforming government ever since they invented government.

(Light 1997)

Everything has been changed, but nothing has happened.

(Graffiti on the Berlin Wall, 1990s)

This book is concerned with the effectiveness of budgetary reforms in a selection of developed countries. It asks how might we judge the reality of budgetary reform in these nations – in good fiscal times as well as in bad. Our intention in each country study is not to offer a synchronic snapshot reporting what exists currently, or how countries are coping with fiscal stress in the midst of the financial crisis, but to assess the reforms over a longitudinal period – say 20 to 30 years – which may differ for each country depending on the particular timelines of reform attempted or implemented. In essence, the book is fundamentally about understanding processes of change and assessing the consequences of change to budgetary systems and to the ways modern governments work. It asks whether budgetary reforms have made a difference and, if so, to what they have made a difference, and to what extent. Have they improved our forms of governance and how we are governed, or have they been of benefit to the nation and to the wider community? Despite economic difficulties are governments better placed to manage their fiscal policies and budgetary priorities into the future?

At first sight, counting the consequences of budgetary reform appears seductively simple, but in practice is inevitably complex and contextual. Judging the merits of any reform measure is problematic. So, if we wish to focus on the impacts of reform this beckons a series of further questions to provide some grounding and concreteness. For example, it would be important to know what governments set out to achieve with their reforms. Have their initial promises remained consistent, or been overtaken by other events? What then occurred, or did not occur, as a

result of the reforms, and was it as a result of the reforms? Has anything been transformed as a result of reform trajectories? What have been the consequences, either intentionally or unintentionally? How have benefits or disbenefits manifested themselves? What strengths and weakness have emerged post-reform? And, is government more or less capable now as a consequence of undergoing reform – both practically and potentially? In short, we are seeking to explore whether governments have improved the ways they operate and are better able to deal with the fiscal challenges they face and will face into the future. These questions of worth and consequence are often skirted around in various literatures and international assessments, but they lie at the heart of the comparative approach of this book.

If we survey the member countries of the Organisation for Economic Co-operation and Development (OECD) we find an extensive recent history of public sector reform and reforms to the internal management of government. Most have now adopted across their public sectors various businesslike practices, management by objectives, and some devolved managerial discretion. Evidence for this can be assembled from various sources: official government reports, international comparative accounts and scholarly assessments (see OECD 2004; World Bank 1998; Pollitt and Bouckaert 2004; Halligan 2003; Christensen and Laegreid 2001). Much of the reform zeal was squeezed into the last two decades of the twentieth century and has continued through the first decade of the present century.

More specifically, many governments have attempted various types of reform to the ways their budgetary systems operate (Wanna et al. 2003; OECD various years). And again, such budgetary reforms generally date from the mid-1980s onwards, although some nations embarked on their reform journey somewhat earlier (for example, Canada from the 1960s) while some only became active much later (for example, with Korea commencing a late but ambitious flourish after 2003). Budgetary systems suddenly emerged as a topic of keen interest to governments, becoming the targets of reform and over time one of the most ‘reformed’ areas inside government. The intentions behind the reform initiatives varied, but they were generally promulgated to control spending and enhance the decision-making potential of governments in their annual resource plans. But why did budgetary systems and practices attract this level of attention from the 1980s? How do we account for this?

One explanation is that budgets lend themselves to reform. They are about choice and repeated choices. They are often a microcosm of government as a whole. They operate as discrete systems with their own logics, rules and norms (unlike other activities of government such as

policy formulation, strategic management, implementation or personnel management). They also recur repeatedly, and in doing so their routines invite sequential reform initiatives. Another explanation may be that participants feel budgetary systems and practices are inadequate, stultifying or even counterproductive. They often aspire to make changes and 'yearn for better ways to handle these chores' (Schick 2004: 90). Just as Lenin once said about 'facts', budgets can be terribly stubborn things – hard to dismiss, harder to reinvent, though eminently manipulatory.

But other factors may have spurred and shaped reform endeavours. High debt levels and persistent structural deficits from the 1960s and 1970s caused subsequent budgetary stress. Tight budgets then forced many governments to find other ways to enhance their resource systems, often to impose greater control and fiscal discipline. Government dissatisfaction with the historical legacies of inflexible budgetary norms resulted in governments being prepared to experiment and imitate. Some governments relaxed controls over the 'smaller numbers' precisely to achieve greater overall control of the 'larger numbers'. Others attempted to strengthen the architecture of top-down controls through political or statutory mandates.

There was also a fascination with the 'new' or the 'other', and a sense at the centre of government that many other governments did things differently and perhaps better. The OECD served as an arena of 'modernity', through its regular meetings of senior budgetary officials (dating from 1980), its *Journal of Budgeting* (from 2000) and best-practice guides. It built an international epistemic community of budgetary officials interested in reform trajectories, reporting progress with reforms and occasionally attempting to outshine each other. More perceptively, Allen Schick (2004: 91) observed recently that these same budgetary officials seem generally more interested in talking only about 'the new' or their latest country reforms rather than about investigating or addressing the problems of the reform practices already attempted. They appear attracted to the 'novel', lured by the 'promises' of success associated with the next wave of change. These are no modern-day Canutes; they are international epistemic wave-makers with a global reach.

Aiming to be more proactive, governments have long sought to find ways to make their budget systems more strategic and more agile to meet changing imperatives, community demands or expectations. Frustration with the conventional allocative processes was a further stimulus to reform, as was the gradual realization that entire budgets could be 'locked in' and virtually immune from discretionary decision-making. There was the notion that budgetary reform could assist other reform platforms across the public sector and in public management generally. Intentions

to impose technical efficiency through the budget process also spurred reform at times. And, there was a belief that budget reforms could perhaps shift the loci of power inside government, giving 'guardian' budget agencies more say in policy deliberations and performance review (Wanna et al. 2003).

As a result of this confluence of reform influences, most OECD member governments have been prepared to reconceptualize how they think about 'public resources' and how they use and deploy such resources in the interests of the community. They began to think differently about their 'resource interactions' with the community and how traditional budgeting expressed these relations or fitted their purposes. Budgets were no longer merely a framework for financing activities, but became much more about enhanced information exchange, enhanced performance and the achievement of policy objectives. Standing back and taking the perspective of hindsight, we can see transformations (large and small) in the ways governments treat public resources. But across these member governments there are distinct differences in approaches and paths – hence the rationale for this comparative volume.

## MEANINGS OF THE TERM 'BUDGET' AND 'BUDGETARY REFORM'

Conventionally, the term 'the budget' means different things in different national settings. Hence, in a cross-national study there is considerable danger that we will not be talking about the same subject when we analyse reform to the budget. Its status and purpose can vary widely. In some nations the term 'budget' refers to a plan of intent or a government statement; in others it is a set of statements attached (loosely perhaps) to a formal appropriation bill which may only request bare numbers – what we consider as 'the budget' is really a set of appendices to a bill asking for formal approval of expenditure totals. Elsewhere, the whole budget is a proposed law, a legal statute once passed like any other, with all its components enjoying legal validity.

The contents of a 'budget' can range across a spectrum of functions. For instance, Britain refers to 'The Budget' (presented in March by the Chancellor of the Exchequer) as the annual statement of revenue required to pay for the expected spending of government. In Canada, there are really two budgets: the government's 'Annual budget' consists of a macroeconomic and fiscal statement to parliament (presented by the Finance Minister usually in February or March),<sup>1</sup> which includes economic projections, economic policy responses, borrowing or savings

indications, and taxation measures. It is not a mandated statement, and in one year (2002) the government chose not to bring down a budget at all. A second 'budget' for the government's own purposes is spread between the 'Main estimates' of expenditure (February) and a series of subsequent supplementary estimates of spending later in the budget year. Australia, New Zealand, Denmark and The Netherlands all have composite annual budgets where the term 'the budget' refers to the main spending plan of the government for the year ahead. In these countries, the budget refers to the planned expenditures requested from parliament for the activities of government. Their documentation may include economic statements or revenue proposals – but these are subsidiary to the main purpose which is to appropriate a spending plan from the legislature.

But usually these countries have a single budget notwithstanding whatever documents are prepared or what they may contain. By contrast, the United States can have multiple budgets or partial budgets. Formally, the President must propose a budget statement requesting funds, but this often lapses in Congress and does not pass. The Congress can propose its own budget which it can seek to fund through its control over appropriations, although it will not constitute executive policy. And if budgets include revenue, debt and borrowing requirements, the budget of the US Treasury – a revenue agency – has claim to be considered part of the national budget (Rubin 1990).

To complicate matters even more, although some countries place all their demands for societal resources 'on the budget', many countries do not. These latter often have a disaggregated budget, much of which exists independently of the other components in special managed funds. Thus, many nations have placed public resources 'off-budget' so that they are not reported in annual budget papers to parliament; and these can include pension funds, health funds, infrastructure funds, debt and interest payment funds, 'future funds' for demographic pressures, and public enterprise assets. This means, for instance, that if nations claim that they have balanced or surplus budgets, we in turn need to ask what such claims include or exclude. A general government balance (or a core-residual government balance) is qualitatively different to a total public sector balance. Furthermore, we need to understand how longer-term liabilities are included in such claims: are they integrated and included, or excluded and pushed to one side? For instance, nations that choose to keep their debt or other liabilities 'off-budget' can appear fiscally virtuous when the actual story may be less flattering. This makes comparisons between nations problematic when reviewing their fiscal positions.

In this book we take 'the budget' to mean the expenditure budget and systems of expenditure management. Budgets are about choices and the

authoritative allocation of resources gained from the community to meet political, social and economic imperatives. We are less directly concerned with revenues, although at times tax reform or changing magnitudes of revenue can feed into the ‘success’ or ‘failure’ of budget reforms – so we cannot ignore them entirely.

If the nature of the budget itself is variable, the nature of budget reform is even more contingent and open to debate. This is not to excite a quibble about whether all ‘reforms’ are desired improvements or merely changes to some pre-existing state. As we shall see in the chapters that follow, what is seen by governments as budget reform is not confined to a single category of change but can range across different levels, from radical system-transforming changes to minuscule changes in administrative practice.

We suggest that there is a sevenfold categorization of budget reforms across different domains. These may or may not be cascading and inter-related, or be discrete and operate largely exclusively. Most categories of reform exist at different levels of the decision-making process although many may in practice coexist and feed into other levels. This categorization can be depicted as follows:

- Transformational reforms: system-wide, comprehensive or programmatic reforms aimed at transforming the principles by which the system as a whole operates; these ambitious reforms are strategic recalibrations often formally expressed through fundamental laws and major change programmes.
- Component reforms: focused reforms aimed at changing some major aspects of budgetary decision-making or changing key components of the process; often these reform initiatives do not require much legislative authorization but are labelled and announced by the executive with great fanfare (often with exhortations and promotional anagrams such as Financial Management Initiative (FMI), Expenditure Management System (EMS), or From Policy Budgeting to Policy Accounting (VBTB)); medium-term economic frameworks fall within this category.
- Restraint exercises: top-down cuts to the budget base to achieve aggregate reductions. Cuts and rationing strategies can have significant impact not only in the period of actual reduction but also over future years; they can change baseline budgets, reduce forward claims, and change the politics of aggregate fiscal management. Whether they are deep or shallow cuts, or annual clawback ‘dividends’, restraint exercises can force changes more widely in the behaviour of claimant agencies and constituencies.