

## What Can Academics Teach Practitioners About Budgeting?

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I'd like to start by thanking Warren Deschenaux for the invitation to say a few things about this topic, because it is a very interesting subject. My views are no doubt idiosyncratic, probably more so than those of many academics, and reflect my training as a political scientist. In particular, I will not focus on specific issues regarding "how to budget," but rather will talk mostly about how practitioners can efficiently draw from academic sources to improve how they budget, and will identify some recommended readings.

I hope that after my presentation we can discuss your reactions and suggestions, and I welcome responses to the full remarks, copies of which I've given to Warren. Though I must say I feel a bit like the coach who is asked to address Cal Ripken on how to "play through pain." Warren has a tremendous record of service to Maryland, and he leads the best policy analysis group in the state. (Though given this year's budget challenges, perhaps the better analogy for Warren is to "bringing the pain"!)

I'm quite confident that academics have much to learn from him, and from fellow practitioners like you.

### “Pracademics” vs. the “Ivory Tower”

This fact, generalized to all practitioners, is one of the reasons I and many other academics chose to specialize in budgeting and financial management. We like talking to people like you, and occasionally, suggesting how you could improve performance. We have the right to do so—after all, many of us spent years working in government budget and finance shops. So compared to many other subfields in the social sciences, the interaction between budgeting academics and practitioners is relatively good. Despite now working in the so-called “ivory tower,” we focus our research on topical budget policy and process issues. Regarding this, I’d like to recommend an article by Paul Posner that was recently published in Public Budgeting and Finance: “The Pracademic: An Agenda for Re-Engaging Practitioners and Academics.”<sup>1</sup> Posner spent many years leading GAO’s budget work, and is now teaching at George Mason; the article was written in honor of the late Dick Zody, a model pracademic who worked in Virginia and across the world and taught at Virginia Tech.

But not all academics who work on budgeting have that background or applied research focus, and it is easy as a practitioner to dismiss their work when they make basic mistakes. For example, consider the following critically-important assertion made in an otherwise well-done article recently published in State Politics and Policy Quarterly: “The general fund receives almost all tax and fee revenue and is the source of almost all legislative appropriations in each state. . .”<sup>2</sup> While the author goes on to note that there are other funds besides the GF, she

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<sup>1</sup> 29: Spring 2009, pp. 12-26.

<sup>2</sup> Shanna Rose, “The Political Manipulation of U.S. State Rainy Day Funds Under Rules Versus Discretion,” 8: Summer 2008, pp. 150-176.

excludes them from an analysis of the politics of how rainy day funds stabilize state budgets because she says that data on these funds aren't readily available (the data source she uses is NASBO's general fund-focused "Fiscal Survey of the States" rather than primary budget documents or consolidated annual financial reports). I would be interested to hear how the administrators of the special funds in my state would be treated if they were to tell Warren and elected officials that their funds "weren't available" for immediate transfer to the GF! (In Maryland, special funds are approximately one quarter of own-source spending, and have frequently been diverted to finance general fund shortfalls.)

At other times the agendas of academics appear irrelevant to the daily challenges and opportunities of working in government. Consider, for example, work on budgets by Bryan Jones and Frank Baumgartner and a large team of colleagues.<sup>3</sup> This work builds on their exemplary political science research, enabled by very generous funding from the National Science Foundation, on patterns of policy changes over time. In their budget work, this group has shown that, across a wide range of governments, the distribution of annual changes in budget allocations tend not to be "incremental," which they define as those fitting the "normal" (or Gaussian) distribution. Rather, budgets are usually stable from year-to-year but then change dramatically, with very large increases or decreases, a pattern they describe as "punctuated equilibrium." Since increases are more frequent than decreases, they infer that "Apparently modern governments find it more difficult to cut back programs significantly than to expand

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<sup>3</sup> Bryan D. Jones, et.al, "A General Empirical Law of Public Budgets: A Comparative Analysis," American Journal of Political Science, 53: October 2009, pp. 855-873.

them dramatically.”<sup>4</sup>

Given the time you’ve spent in the budgetary trenches, I expect your reactions to this academic discovery will be along the lines of the Homeric “Doh!” Or, since word choice is pretty important in the fiscal notes you prepare, you might ask, “In place of ‘apparently,’ didn’t you mean ‘obviously’?” And then you might follow up with, “and what can we do to make this budgetary dynamic more sustainable?” To which the authors would say that they are building a scientific theory, the first part of which requires careful description of empirical reality. Their article does contain some very interesting speculation about how the variance in institutional structures across governments affects the distributions of budget changes, which when fully developed into theory could help provide answers for the normative sustainability question you often face. However, you may not be willing to wait that long, even for high-quality research such as this.

When I was at Congressional Budget Office, and working on a budget process question involving a very powerful committee, I taped to my office door a copy of an academic article which purported to address the issue I was examining. Given that the article used the methodology of game theory to analyze the problem, and thus was written mostly in mathematical symbols, it was opaque, to say the least. And that was probably a good thing, because in order to make the analysis more tractable, following convention the article made some simplifying assumptions that would be completely laughable to anyone who had spent time of the Hill. I think it is quite likely that the author knew this, but didn’t worry about it, because

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<sup>4</sup> p. 862.

incentive systems for many academics reward apparently sophisticated work regardless of its relevance or accuracy.

### The Benefits of Academic Distance from Daily Budgeting

But there are occasionally good reasons for academics to adopt this stance. The inside knowledge that practitioners hold can be relatively costly for academics to obtain, so the return to alternative methods, such as sophisticated statistical analysis, can often be higher. And perhaps more importantly, there are several dangers associated with relying too much on the knowledge gained while being a practitioner. In my experience, the phrase “inside the beltway” nicely captures those dangers. That phrase connotes several conditions: knowing arcane details that matter a great deal but about which most others are ignorant; understanding what is and what is not likely to happen because of the realities of political power; and confidence that the situation in your government is unique. That latter observation is an especially easy one to make in Washington, D.C.

But whether or not your government is surrounded by a literal beltway, I would argue that all governments are surrounded by a figurative one—that is, many skilled practitioners interpret their world by using “inside the beltway” assumptions. While this approach conveys some benefits, it also brings intellectual risks. One is that focusing on arcane details distracts attention from fundamental features that may be more important. For example, in one area in which I specialize, the Congressional budget process, I have been struck by how many would-be reformers fixate on the specifics of actual and proposed rules for consideration of budget bills

while ignoring the conditions which determine whether rules would work or not, such as the presence or absence of norms that are consistent with the rules. For example, rules that are “meant” to enforce budgetary discipline will not do so when most participants actually want these rules to be waived and expect that they will be waived.

Similarly, being embedded in the current power structure can lead practitioners to underestimate the chances that it will be replaced. I found it amazing that many Republicans were surprised to have lost the House in the 2006 election—though perhaps that was an indication of how young many of them were, having arrived in Washington after 1994, when Democrats had a similar awakening.

A final danger of the figurative beltway is that there are more commonalities across governments than many practitioners perceive, having been distracted by apparent differences at the surface. Again, this is especially a problem among Washington budget practitioners, many of whom have what should be embarrassingly little knowledge of what other national governments do, and little apparent interest in finding out. This is a missed opportunity. Consider, for example, the ambitious “new public management” budgeting reforms in the United Kingdom, Canada, Australia, and New Zealand. They all speak English, making their reforms especially accessible to us. Though these countries all have Westminster-style constitutional structures, in which the executive is drawn from the legislature, we can still learn a variety of important lessons about selected issues that concern us. An example is how U.S. government might apply full accrual practices, a critical issue regarding the major entitlement programs of the federal government and the pension and other retirement benefits promised by state and local

governments. On this issue, the Westminster countries have “been there and done that.”

Summarizing the lessons we might learn from other national governments is not easy, but if you are interested in exploring this area, some selected recommendations for reading are:

John Wanna, Joanne Kelly and John Forster, Managing Public Expenditure in Australia, Sydney: Allen and Unwin, 2000;

Christopher Pollitt and Geert Bouckaert, Public Management Reform: A Comparative Analysis, 2<sup>nd</sup> ed., Oxford University Press, 2004;

most anything written by Allen Schick, in Public Administration Review, the OECD Journal on Budgeting, and for the World Bank; and

selected publications of the International Monetary Fund’s Fiscal Affairs Division.

Another recent, interesting comparative work looks at Fiscal Governance in Europe; it’s by Mark Hallerberg, Rolf Rainer Strauch, and Jurgen von Hagen.<sup>5</sup> Their highly sophisticated research investigates the effect of centralizing budgetary powers on budgetary outcomes, and the prospects for centralizing power given country political systems. I don’t agree with all of their findings, particularly the implication that legislative power should be diminished (and I suspect that some of you may agree with me!). Plus the scientific style of the book makes it far from accessible to the typical practitioner. Nevertheless, the book also illustrates the comparative advantage that many academics bring to research. Conceptual and methodological sophistication, when applied appropriately, enable high quality measurement and inference that can tease out patterns from complicated realities. Academics, unlike practitioners, have the luxuries of more time and wider reading that makes such rigor possible.

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<sup>5</sup> New York: Cambridge University Press, 2009.

## Learning About Other State and Local Governments

Luckily, ignorance of what's happening in comparable governments is much less of a problem at the state and local government levels in the U.S., as evidenced by this meeting and many other venues for interaction such as NASBO, NALFO and GFOA. Among academic budgeting sources, the leading work that compares state and local governments is Irene Rubin's book The Politics of Public Budgeting.<sup>6</sup> In style it is the exact opposite of the book I just recommended--it is highly accessible and crammed with case studies rather than equations and data. But more than perhaps any other source, it can help us understand how context matters in budgeting and how budgeting has changed over time.<sup>7</sup>

After Warren asked me to give this talk, I queried fellow members of the Association for Budgeting and Financial Management for their thoughts. I received many thoughtful responses, and incorporated some into this paper.<sup>8</sup> One was from Rubin (I have edited it to reduce length):

Often, though not always, academics have context that many practitioners lack, whether that is a comparative focus (what other states are doing or have done, for example), and historical context (not only where that particular government unit has been or what it did before, but where the profession generally has been, why we do things in that particular way).

Academics have or try to have a handle on "why," which is something that many practitioners do not have time to either contemplate or uncover. Knowing why is not always useful, but sometimes it is. Academics tend to take a longer view of things, watch processes play themselves out, and so are more likely to be able to tell practitioners

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<sup>6</sup> Washington, D.C.: CQ Press, 2009.

<sup>7</sup> Another interesting source on state budgeting, which emphasizes how budget examiners decide, is Kurt M. Thurmaier and Katherine G. Willoughby, Policy and Politics in State Budgeting, Armonk, N.Y.: M.E. Sharpe, 2001.

<sup>8</sup> My apologies to any of those whose suggestions I have neglected in this paper.



where they are in a cycle, and the implications of being there. They are better at teasing out things like what advance indicators are of recession or recovery, the impact of counter cyclical spending, or implications of well designed input-output models.

Practitioners seldom have the time or the freedom to work out concepts that help standardize discourse or that facilitate norms. Academics can dwell on normative issues, such as what is the ideal level of balance under what circumstances, how much borrowing should occur and for what kinds of projects or programs, what intergenerational equity means, and how it can be achieved. If these are not issues that occur to and have high priority with elected officials, staff is unlikely to get the assignment to work on them, but they are still important, and need to undergird policy considerations.

Another area where there has been useful comparative research on the states is performance budgeting. Some published research is not that good, of course, but there are some exemplars: work by my occasional coauthor Phil Joyce, by Julia Melkers and Katherine Willoughby, and by the staff of NCSL and the Urban Institute—I believe Warren was on the advisory board for this last one.<sup>9</sup> But I would especially recommend a recent book by Donald Moynihan: The Dynamics of Performance Management: Constructing Information and Reform.<sup>10</sup> His empirical work compares performance budgeting for corrections in Alabama, Vermont, and Virginia and recounts the history of performance budgeting implementation in the federal government. He develops a theory of performance management and budgeting that is more politically realistic than what has been sold by its most technocratic advocates. If you have anything to do with performance measures in budgeting, and a tolerance for some organization

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<sup>9</sup> Philip G. Joyce, “Linking Performance and Budgeting: Opportunities in the Federal Budget Process,” IBM Center for the Business of Government, October 2003; Julia E. Melkers and Katherine G. Willoughby, “Models of Performance-Measurement Use in Local Governments: Understanding Budgeting, Communication, and Lasting Effects,” Public Administration Review, 65, March 2005, pp. 180-191; NCSL, Legislating for Results, 2004.

<sup>10</sup> Washington, D.C.: Georgetown University Press, 2008.

theory, you should read this book.

### Comprehensive Texts and Basic Budgeting Courses

By this stage of my talk, you may have noticed that I have committed an error that should be sinful to both budgeting academic and practitioners—I didn’t define the terms in the title of the talk. So I’ll do that briefly now. I have used the imperial definition of “budgeting”—defining it very broadly to include financial management, taxes, debt, government accounting. I can get away with this because I’ve never seen a budget agency that lacks imperial aspirations. . .

Regarding the definition of “teach,” so far in my comments, I’ve taken the liberty of including in “teach” the central academic activities of conducting and disseminating research, some of which is done through public service/consulting, and some through academic journals. But of course, most teaching is done in the classroom, typically through courses that prepare novice budget preparers and analysts. The patently obvious answer to this talk’s question of “what can academics teach practitioners?” is: the contents of basic budgeting courses, and of the different textbooks, which respond to different segments of the market, that are typically used in these courses. The best-sellers have that status because they are extremely good at what they do.<sup>11</sup>

The typical budget course covers a variety of technical skills that are indispensable to

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<sup>11</sup> See especially John Mikesell, Fiscal Administration, 7<sup>th</sup> edition, Belmont, Cal.: Wadsworth, 2007; Robert D. Lee, Jr., Ronald W. Johnson, and Philip G. Joyce, Public Budgeting Systems, 8<sup>th</sup> edition, Boston: Jones and Bartlett, 2008; and Steven A. Finkler, Financial Management for Public, Health and Not-for-Profit Organizations, 3<sup>rd</sup> ed., Upper Saddle River, N.J.: Prentice-Hall, 2009.

budgeting.<sup>12</sup> ABFM has prepared a web site that shows the wide range of approaches used in such courses across the country: [http://www.uic.edu/cuppa/pa/academics/ABFM\\_database/syllabi.html](http://www.uic.edu/cuppa/pa/academics/ABFM_database/syllabi.html). Some graduate MPA and MPP programs provide a wealth of such training in sequenced courses for students specializing in public financial management.<sup>13</sup>

Given the wide number of tasks in budgeting and financial management, few practitioners will find it possible to master all the technical skills that could be useful. And technical skills are truly learned when applied under pressure and with consequences greater than what grades create. The real world of politics also makes the work more important than class work, even though it can be more frustrating as well.

These facts help explain why the first years of experience as a practitioner are inevitably much more instructive than what can be included in texts and taught in classes that include only about 45 hours of class contact a semester. This is also the case because much of what it takes to be successful in budgeting is not specific to budgeting, but rather is a mix of general capabilities: having common sense; working hard; writing and speaking well, and listening attentively and respectfully. In her response to my ABFM query, Katherine Willoughby well described the kind of analyst we should be forming and you should be finishing:

Those of us teaching in MPA and MPP programs should be (and I believe are) generating graduates who are critical thinkers who can make nuanced responses to public

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<sup>12</sup> A useful survey of what is taught in these courses is provided by Michael Moody and Justin Marlowe, “Recent Iterations in the Public Financial Management Curriculum: Is What Practitioners Need Being Taught?”, *Journal of Public Affairs Education*, 15: Spring 2009, pp. 47-58.

<sup>13</sup> One question discussed after this talk was “From which graduate programs should we hire?” Some agencies highly valued the integrated training from schools such as Syracuse, Indiana, NYU, or Georgia, while others strongly preferred to hire generalists and train them. Jim Savage has thoughtfully suggested that a future ABFM panel feature budget office directors discussing how they hire and train journeymen budget analysts.

management and budgeting problems. *We should be creating students who are comfortable being uncomfortable. [emphasis added]* That is, our program output should be students who can have a public management or policy problem plopped in their lap and who then can generate a reasonable response, if not completely solving the problem, through research, analysis, collaboration, and interpretation. These students can generate a dialogue, pursue a shared understanding of the problem and context, and then sift through and apply solutions.

### “Practitioners” Includes Politicians

Having been trained as a political scientist, I feel it is especially important to define the universe of practitioners as including more than civil servants with technical skills. Elected officials, political appointees, and politically-active citizens are all practitioners. Consider the incumbents and challengers for the 39 gubernatorial seats that will be contested next year. One thing that both academics and practitioners know is that incumbent governors are the elected officials most at risk for defeat during re-election campaigns because of economic downturns that are not their faults especially after they raise taxes. Related to this fact was one popular thread in the responses to my email query, which concerned how the current politics of taxation tends to ignore fundamental tenets of good tax policy as described in the extensive academic literature on taxes. If career-oriented politicians were to consult this literature more often, and find that short-run tax pandering can be especially bad tax policy and thus tax politics over time, then we might end up with slightly better tax codes. Now if only the horses would drink that water. . .

Another relevant practitioner concern is how citizens and state legislators should advocate for spending increases. Just raising this point to heads of budget shops reminds me of the reaction when my son cut up a round of cheese using the wrong technique before his host

family when he was studying abroad in France: they all cried “sacrilege!” But most budget practitioners will end up working as claimants rather than as central budget controllers, and advice to them on how to attain funds needed for effective operations is perfectly legitimate. This is a topic that academics have neglected in recent years.<sup>14</sup>

Frankly, it is sometimes difficult to do quality political science when in an official budget role. For all the discipline’s aspirations to be a “true” science, in reality institutional political science is often a squishy craft in which skilled practitioners must use judgment, and where it is more difficult to explain the logic behind an analysis, compared to, say, quoting a price elasticity estimate. A recent example is the CBO projection that creating an independent board (IMAC) to recommend likely changes to Medicare spending would generate \$2 billion in savings over ten years.<sup>15</sup> How they arrived at this specific figure has not seen the light of day, which to me implies that a certain medical specialty may have provided help in pulling out this estimate. . .

Nevertheless, and I’m obviously showing my biases here, I think it is useful to quote an insightful response to my ABFM query from Tom Lauth:

It also is valuable to increase practitioners’ understanding and appreciation of the legitimacy and importance of the political environment in which they operate. Many budget and financial management practitioners are trained in accounting, economics or finance and have a difficult time adapting to the political environment of budgeting and financial management. To the extent to their disciplinary training emphasizes rational/technical decision-making, they experience a clash of cultures when they encounter political executives or legislators who are motivated by different sets of values. We perform an important function when we facilitate a better understanding and appreciation

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<sup>14</sup> Though see Roy T. Meyers, “Strategies for Spending Advocates,” in Meyers, ed., Handbook of Government Budgeting, San Francisco: Jossey-Bass, 1999, pp. 548-567.

<sup>15</sup> CBO, Letter to the Honorable Steny H. Hoyer, “Approaches for Giving the President Broad Authority to Change Medicare,” July 25, 2009.

of these often competing cultures.

This should be true even for those budgeting specializations that are often viewed as being largely technical. Consider public debt management. Anyone who works in this field needs to read about Bob Citron, the former financial manager for Orange County, California. At first my students like this case because of its location in the “O.C.” (for those like me who avoid TV, this was the location of a cheesy “teen drama” series), but then they become immersed learning about the massive failures of accountability. A very nice review of this story is by Mark Baldassare, When Government Fails.<sup>16</sup>

Due to the more recent and larger financial crisis, there are many interesting current issues in public debt management where academics have valuable things to say. For example, before the financial crisis, one of the topics well researched by academics was the extent to true interest costs could be reduced by commissioning ratings from more than one of the credit rating agencies. Now, though, these agencies are at least partially discredited, in the eyes of many, as are the bond insurance companies whose balance sheets have weakened. For a start on understanding on how to deal with this market in flux, see the Municipal Finance Journal-- in the Winter 2009 issue, for example, you’ll see an article by Dwight Denison on “What Happens When Municipal Bond Insurance Companies Lose Credit?”<sup>17</sup> Another question that finance academics might soon provide some guidance on is what would be the impact, if any, of the proposed requirement (from the House Financial Services Committee and the Treasury) that

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<sup>16</sup> Berkeley: University of California Press, 1998.

<sup>17</sup> 29: pp. 37-47.

credit rating agencies supplement their letter ranking of default risk with a specific probability of default.

With these examples I have certainly just scraped the surface of interesting readings and topics in debt management and in budgeting more generally. The lesson you should take from this is that the interests and skills of both practitioners and academics are very heterogeneous. Yet I believe there is a commonality among this diversity: if you are looking for advice on a budgeting problem, an academic is likely ready to help. Or to revise Harry Truman's complaint about two-handed economists, there are probably several academics who have something to say--often in disagreement with each other, using different methodologies and revealing different normative biases (sometimes because they are hired guns).

But ranges like this are not only unavoidable, they are good, especially for analysts who provide advice to legislatures composed of people with quite different, strongly-held perspectives on public policy. Excellent budget practitioners are skilled in making educated guesses about the uncertainties associated with specific actions. Disagreements between academic researchers can give some guidance for selecting the appropriate parameters for sensitivity analysis. For example, and to be much more positive this time, CBO's work on elasticity parameters and other likely behavioral responses to proposed changes to health law are providing much needed expertise for Congressional deliberation.<sup>18</sup>

But do practitioners have the ability and time to find such relevant academic work? Ability--usually; but time--often not. So here's a magic bullet for dealing with this problem: hire

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<sup>18</sup> Key Issues in Analyzing Major Health Insurance Proposals, December 2008, <http://www.cbo.gov/doc.cfm?index=9924>

academics for consulting. I know it is tempting and sometimes legitimate to ask professors to volunteer expertise as public service, but it is also unrealistic to expect extended charity when many academic salaries have been subjected to significant compression.

I also believe all practitioners should mix some periodic professional education, organized or self-taught, with an efficient scanning routine of leading journals.<sup>19</sup> Get on the distribution list for journals such as Public Budgeting and Finance, Public Administration Review, Journal of Economic Literature, National Tax Journal, State Tax Notes, or whatever journals best match your specialty. There you may find some needles in the haystacks.

Similarly, once starting to work on a new area, find a classic work in the library. E.g., if you are working on public-private-partnerships, and haven't read Oliver Williamson on contracting, you would probably benefit from being exposed to the concepts he used so creatively.<sup>20</sup> Or if you must estimate gaming revenues and analyze the policy implication of gaming, behavioral economics and psychology's prospect theory could be part of your thinking and modeling.<sup>21</sup> And techniques from financial economics, though discredited for some by the financial crisis, may have surprising relevance to public budgeting challenges, if you are willing to think through the math and assumptions. For good examples, see Fred Thompson's recent

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<sup>19</sup> Another question discussed after the talk was the need for more outlets for mid-career professional education.

<sup>20</sup> Of course, shortly after this talk he was awarded the Nobel Prize for Economics.

<sup>21</sup> For a very accessible introduction to this literature, see Nudge: Improving Decisions about Health, Wealth and Happiness, by Richard H. Thaler and Cass R. Sunstein, Penguin, 2009.



articles on spending limits.<sup>22</sup>

Finally, and to return to my opening point, whether practitioners can learn from academics depends partially on practitioners telling us when we're wrong, and what you need to know. Please do so. Thanks for listening, and I'm eager to hear your comments, questions, and rebuttals.

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<sup>22</sup> Michael Dothan and Fred Thompson, "A Better Budget Rule," Journal of Policy Analysis and Management (2009, 28: 3, pp. 463-478), and Fred Thompson and Bruce L. Gates, "Betting on the Future with a Cloudy Crystal Ball? Revenue Forecasting, Financial Theory, and Budgets," Public Administration Review, Theory to Practice, (2007 September/October, pp. 67-75).