

Oceans Apart: Approaches to Educating Public Financial Managers about Political Institutions

Roy T. Meyers
Professor of Political Science
UMBC (University of Maryland, Baltimore County)
meyers@umbc.edu

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Abstract: While the call for Section C of the Dialogue emphasizes the challenge of recruiting managers with appropriate financial skills, that concern should be broadened to developing stronger political skills among public financial managers. Financial managers, especially those in positions of authority, must understand how political institutions affect budgetary decisions. After all, budgeting is an inherently political process, and political institutions are often implicated in diagnoses of ongoing fiscal challenges. Public financial managers have long been important advocates for institutional reforms.

In the U.S., there is no consensus among academics about how reforms of political institutions could help governments cope with challenges. But there is a growing body of political economy research, much of it conducted on European states, which suggests that centralization and fiscal rules might help produce more sustainable budgetary policies. Yet this research is rarely referenced in U.S. texts or covered in U.S. financial management courses. These sources instead emphasize how public financial managers can coexist with flawed current institutions. The paper suggests that there should be more interchange between these different perspectives.

This paper also reviews different approaches to studying political institutions. It selects “discursive institutionalism” as an attractive method for both training public financial managers about political institutions and for engaging them in the ongoing reform of budgeting.

Introduction

Public financial management is a field that is not firmly bounded. It incorporates many different roles (e.g., auditor vs. budget preparer) and related trainings in various disciplinary backgrounds. While most public financial managers (PFMs) specialize in a particular function, many also possess multiple skills that are essential to performing high-quality work. One such skill is being able to write carefully and clearly. Others are instead applications of quantitative expertise drawn from the fields of accounting, economics, finance, and policy evaluation. While these latter skills are often described as “technical,” they are far more than ministerial or mechanical activities, for such work usually requires professional craft. And by definition, PFMs need also to know how to manage, a craft knowledge that, like writing, is much less often described as technical.

The thesis of this paper is that PFMs need another “non-technical” craft--the ability to understand how political institutions work. (This assertion is restricted to those political institutions that are heavily involved in budgeting, which would typically rule out the courts, for example.) When public financial managers possess a sophisticated understanding of how these political institutions function, they are more likely to operate successfully within them.

Now is a period of substantial challenges for the public finances, including the effects of a worldwide financial crisis and deep recession, the threat to the EU from the looming insolvency of several countries, and the long-term financial unsustainability that faces most nations on both sides of the Atlantic. Implicated in all of these challenges are political institutions said by many experts to be failing. Are these diagnoses correct, and if so, what prescriptions for reform flow from them? It is hard to imagine that PFMs should forsake thinking about those questions. Budgeting is inevitably political, for even those participants who primarily function as technical experts.

One might think that a paper written for a Transatlantic Dialogue would focus on how the Atlantic makes understandings about political institutions an “ocean apart.” There is no question that the Atlantic’s width does limit interchange between professionals (the OECD Senior Budget Officials meeting and *Journal on Budgeting* being exceptions that prove the rule?). So do language barriers--this paper draws only on the English language literature and particularly from American sources, so I would especially appreciate feedback from those teaching in Europe.

There are also often great differences in perspective between those who work in American and European governments--to paraphrase Graham Allison, many see American and European political institutions are fundamentally different in all important respects, except for their shared democratic nature. Of course, east and west of the Atlantic does not align perfectly with actual institutional variation. Americans would do well to remember that the U.S. is not the sole country on its side; Canada has a Westminster system and Mexico is a hybrid Presidential state, as are many other countries in Latin America. East of the Atlantic, European within-group

variation is also large.(For an analysis of the effects of presidential vs. parliamentary systems on budget balances, see Cheibub, 2006; for broader comparative analysis of political institutions, see Lijphart, 1999; and for comparative public management reform, see Pollitt and Bouckaert, 2004)

Acknowledging the challenge of making cross-national comparisons, I believe there is another (figurative) ocean that should be of more concern. The continents it separates are the: 1. common knowledge about political institutions contained in texts and courses for PFMs and the practices used for their hiring; and 2. current research about political institutions, particularly from the comparative political economy approach. The following sections sketch rough maps of these continents, before suggesting how trading might shrink this ocean.

Expectations, Training, Texts, and Teaching about Political Institutions in Budgeting

In the U.S., the National Association of Schools of Public Affairs and Administration includes knowledge about political institutions in the common curriculum components for its accreditation standards (<http://www.naspaa.org/accreditation/seeking/reference/standards.asp>):

4.21 Common Curriculum Components. The common curriculum components shall enhance the student's values, knowledge, and skills to act ethically and effectively:

In the Management of Public Service Organizations, the components of which include:

- Human resources
- Budgeting and financial processes
- Information management, technology applications, and policy.

In the Application of Quantitative and Qualitative Techniques of Analysis, the components of which include:

- Policy and program formulation, implementation and evaluation
- Decision-making and problem-solving

With an Understanding of the Public Policy and Organizational Environment, the components of which include:

- Political and legal institutions and processes
- Economic and social institutions and processes
- Organization and management concepts and behavior

How these topics should be mapped to courses is largely up to accredited programs. Similarly, there is substantial leeway regarding the content of budgeting and financial management courses. Periodically over the past decades, that content has been discussed by

experts in the field, particularly regarding which subjects the core budgeting and financial management course should emphasize, which subjects should be relegated to optional courses rather than the core, and what is the best sequence of budgeting and financial management courses should there be more than one. For example, in 1985, a National Task Force of the Section on Budgeting and Financial Management (the prior name for the Association for Budgeting and Financial Management) concluded that among the field's core skills was "institutional knowledge in public financial management"(p. 3) and that "students should understand the roles that budgets play in public organizations in both the short run and long run including control, evaluation, implementation and planning. The plan and budget process should be covered from multiple perspectives including the political, technical, legal, and organizational."(p. 4; see also Alexander, 1984, Caiden, 1985)

Some participants in these discussions have expressed concerns that courses have overemphasized politics and process, displacing training in technical skills (e.g., Grizzle's report on a survey of MPA courses, 1985). Jones (1991) went even farther, proposing a multi-course model curriculum which greatly emphasized management control, financial and managerial accounting, and economic and financial concepts; he relegated budgeting to a course that would follow separate courses on these topics. More recently, a survey of MPA course content by Moody and Marlowe found that the contents of core budgeting courses still emphasize political concepts, concluding that

much of what was being taught 25 years ago is still being taught today. If one's view is that the area of public financial management has not changed much from 25 years ago, then this result is not particularly surprising or discouraging. However, if one believes that the field has changed in terms of what is actually happening, these rules may cause some concern.(p. 54)

Fossett (2010) argued that the increased complexity of public finance roles (e.g., with contracting) requires more technical training. He proposed that the MPA core finance course feature budget analysis, financial accounting, managerial accounting and cost control, market theory, and capital budgeting; budget process and institutions would be relegated to a concentration course.

While there is no question that financial skills are increasingly important in public management, U.S. federal job postings illustrate that hiring agencies still strongly expect candidates for higher-level financial management positions to have political knowledge and skills of. Following are extracts from three illustrative ones recently listed on <http://www.usajobs.gov/>, paraphrased and condensed to save space:

1. Supervisory Budget Analyst, for the USDA Natural Resources Conservation Service (GS-15)

"leads budget formulation through all stages up to final passage of appropriations acts"

“monitors the budget execution phase and reports to senior leadership any inconsistencies with decisions established in the budget formulation phase and any matters having implications for future budget year funding”

“experience providing guidance to senior leadership and staff in budget formulation”

“expert knowledge of the budget formulation and presentation process sufficiently detailed to obtain an understanding of policy and procedural directives included in materials transmitted in compliance with OMB Circular A-11 and those from the Congressional appropriations process”

2. Deputy Director for Budget and Program Performance in DOT (Executive Schedule)

from Executive Core Qualifications #5, Building Coalitions:

“Political Savvy. Identifies the internal and external politics that impact the work of the organization. Perceives organizational and political reality and acts accordingly.”

3. CFO of Patent and Trade Office (SES reserved)

“Incumbent has frequent personal contacts with members of the public, officials of other government agencies, Congressional staffs, representatives of bar associations, and industrial and other professional personnel. Within his/her area of operations, has authority to speak for the Under Secretary and Director, and make binding commitments.”

What language stands out from these postings? To me, the revealing passages are “experience . . . expert knowledge,” “perceives reality. . .and acts accordingly,” and “frequent personal contacts.” That is, much of the relevant knowledge about budgetary institutions is learned on the job and is extremely practical and pragmatic.(Meyers, 2009b; Posner, 2009)

While public financial managers have opportunities for professional training and certification, coverage of political institutions there is often minimal. This is especially the case with the Government Finance Officers Association program for Certified Public Finance Officers (<http://www.gfoa-cpfo.org/>). The USDA Graduate School has a federal government financial management certificate program (http://graduateschool.edu/index.php?option=com_content&task=view&id=86&Itemid=205). It requires 230 CPE credits and is highly oriented towards practical aspects of federal government budgeting (e.g., a four-day course on the GAO’s Principles of Appropriations Law, covered chapter-by-chapter). For aspiring executives, the OPM Leadership Development Program has an extensive program that is designed to prepare candidates to qualify under the OPM’s 5 executive competencies. This program includes a two-week full time course on Federal Budgetary Policies and Processes.

Here is a screen shot of its catalog description; note its emphasis on simulation and contacts with current and former senior officials:

The screenshot shows a website for 'LEADERSHIP DEVELOPMENT & TRAINING' with the tagline 'GREAT LEADERS for GREAT GOVERNMENT'. The navigation menu includes: Main, About Us, Contact Us, Courses, Certificates and Programs, Custom Solutions, Presidential Management Fellows, and Locations. The main content area is titled 'Federal Budgetary Policies and Processes' and features a sub-header 'Prepare and Present a Winning Budget'. Under 'Schedule', it lists a course on April 4-15, 2011, at EMDC, Shepherdstown, WV, for \$5035, with a 'Register' button. The 'Overview' section describes a seminar with a simulation. The 'How You Will Benefit' section lists five bullet points. The 'Who Should Attend' section identifies program managers and budget professionals. On the right, a 'FIND COURSES' search bar is present, along with a list of 'COMPETENCIES EMPHASIZED' (Conflict Management, External Awareness, Flexibility, Influencing/Negotiating, Problem Solving), 'LENGTH' (2 weeks), 'LOCATION' (EMDC, Shepherdstown, WV), and 'COLLEGE CREDITS' (3 Hrs Upper Level Baccalaureate or 3 Hrs Graduate). Social media share icons for Twitter, Facebook, Digg, and Reddit are also visible.

I next review the coverage of budgetary political institutions in six textbooks that I have on my bookshelf (not all are the most recent editions): Mikesell(2007); Finkler(2001); Lee, Johnson, and Joyce(2004); Rubin(2010); Caiden and Wildavsky(2004); and Lewis and Hildreth(2011--!). I believe the first five are the top-selling texts, and suspect that the sixth will join that list.

The Finkler text is easy to describe. It emphasizes the production and use of financial information, and ignores almost completely anything to do with political institutions.

Mikesell's best-seller has the least coverage of political institutions among the other five. The book places a very heavy emphasis on taxes (roughly 40% of the book's pages), and its perspective is clearly from the economics of public finance. It briefly describes the incremental budget process and then provides a longer list of strategies. It sets out the basics of the executive budget and the legislative enactment process, and discusses the balance of power between the branches. It describes major organizations such as OMB and the Budget Committees, budget

timetables, and the causes and effects of omnibus vs. separate budget laws. There is extensive coverage of budget preparation practices and of input vs. performance orientations.

The Lee, Johnson, and Joyce text, as does Mikesell, primarily uses a “just the facts” approach. It differs from the Mikesell work by providing less on taxes and more on procedure, particularly on the executive branch process; it is denser on budget organizations and participant roles and on recent history.

The Lee, Johnson, and Joyce text is unlike Mikesell, however, and more like the remaining three texts, in that it starts by describing budgeting as a process that can be and should be understood using multiple conceptualizations: as a system for decision-making, as a process of generating information, and so on. The third text, by Wildavsky and Caiden, similarly describes budgets as predictions, as contracts, as conflicting commitments, and so on. This book, in contrast to the above two, is clearly focused on who has power and how they exercise it. It is a hybrid of various chapters drawn from Wildavsky’s frequently-revised book and additional, more recent contributions from Caiden. It includes the chapter that attracted many to the field--now titled as “classical budgeting,” it describes the norms, roles and strategies common during the incrementalist consensus.

But the newer book also includes chapters on the collapse of this consensus, due to the interplay of changes in macroeconomic policy, policy designs, and Congressional and executive institutions and budget processes. In doing so, it returns to the sociological insight about norms that was revolutionary in the original book, quite contrary to the “rules of the game” that is common to the modern political economy research described below. “There is no better way to understand what has happened to budgeting in our time than to consider the radical changes in the norms of the desirable behavior that used to guide budgeters.”(p. 181) Caiden also provides a conclusion about the paradoxes of modern-day budgeting--the process is powerful yet impotent, structured yet formalistic, complex yet segmented, polarized yet moderated.(pp. 219-224)

The Rubin text also starts by describing the multidimensional nature of budgeting, and is similarly eclectic in the approach it takes to describing processes at the different levels of American government, a particular strength. Like Wildavsky, and unlike the previous two books, it is all text, not incorporating displays of typical budget process timetables or how-to’s on technical methods with related skill-building exercises. Compared to the Wildavsky and Caiden strong emphasis on politics, Rubin also draws informally from sociology, history, and an Eastonian political system framework. Context and sequence are featured in rich qualitative descriptions, often in minicases.

The sixth text, a new offering from Lewis and Hildreth, resembles Rubin’s, especially in its breadth of coverage across U.S. governments. My first impression is that it would be an especially useful book for undergraduates, as it focuses on essential concepts and the visual design is like an interesting scrapbook. On the other hand, it usually doesn’t present the amount

of detail that Rubin does, which may leave graduate students dissatisfied. Its “institutional” chapter is largely about roles, process, timetable, but other sections cover electoral responsiveness, public participation, and organized interests.

I also reviewed the syllabi of graduate school budgeting courses in the ABFM teaching database (http://www.uic.edu/cuppa/pa/academics/ABFM_database/index.html). Since these syllabi were collected circa 2007-8, my summary description of them may be a bit dated (and it would be an additional service by ABFM to update this source with live links).

The American courses display a wide variety of approaches to teaching the course. For example, some emphasize the federal government, others local government and particularly GFOA sources. Others follow popular texts verbatim, particularly for Mikesell and Finkler. Some others balance one of these texts with a more politically-oriented one--e.g., Mikesell with Rubin. Many use practical exercises, some of which are designed to reveal political aspects of budgeting; more have the potential to do so. Many mention some aspects of the political nature of budgeting in the syllabus introduction or course objectives, but the readings often do not reflect this emphasis of political institutions. Much like the standard texts, most courses feature budget preparation and analysis within organizations, including performance budgeting. Of course, it may be the case that more is done in classes on political institutions than is suggested in the syllabi.

I was unable to find a similar collection of European syllabi, and ran out of time to compile such a survey; I would like to do so for a revision of this paper. I do suspect that European students are far more likely to be exposed to explicitly institutionalist readings and ideas in their core budgeting courses (for example, in Joachim Wehner’s course at the London School of Economics and Political Science).

From this brief review, it appears that texts and teaching about political institutions in the budget process emphasize how participants can fit into the current system, with a particular emphasis on activities of budget preparation and analysis. Government training and hiring expectations are similarly practical. Neither of these findings should be at all surprising. However, it has also been the case that PFMs have long been expected to lead change. For example, when organized interests capture unwarranted subsidies, PFMs should be counted on to oppose such inefficiencies. But what about when political institutions themselves contribute to such problems--should not PFMs be aware of such situations and be able to think about alternatives for reform?

A co-convener of this Dialogue’s Section has written persuasively that modern analytical approaches to finance are underemphasized in government practice.(Thompson and Gates 2007). I make a similar argument below regarding knowledge about political institutions. I describe the various ways social scientists have thought about institutions, and how one approach--comparative political economy--has studied the role of political institutions in budgeting. First, though, I set out an example of a institutional issue that PFMs should be able to analyze.

A Water Cooler Test

There is an informal standard known in the U.S. as “passing the water cooler test”: being knowledgeable enough about relevant ideas and methods so that one can converse intelligently about them. It means being able to sensibly apply such ideas and methods to somewhat new but not entirely novel situations.

For the more technical skills in public financial management, it’s relatively easy to identify some water cooler tests. For example, when considering a new tax, a PFM should be able to analyze its possible distributional and incentive effects (calculate quintile distribution; apply elasticity coefficient). Or when considering budget projections, a PFM should be able to identify the possible risks to financial sustainability (apply common financial ratios, construct dynamic debt model).

My impression is that many PFMs would be less able to identify similar water cooler tests for questions about political institutions and how they relate to budgeting and financial management. Consider a budget that includes particularistic distributions, such as the earmarks that have recently received much political attention in the U.S. Among the basic analytical questions that could be raised in this case are: the practical definition of earmark; whether earmarks complement or substitute for more general spending; the possible effects of earmarks on the likelihood that the budget will be enacted; the effects of greater earmark transparency on the desire to request and approve earmarks; and how greater attention to earmarks is affecting election prospects of incumbents and challengers. Note that it is easier for experts to identify such questions than to come up with definitive answers to them.

An additional impression is that the standard water cooler response by most PFMs to this case would have substantial emotional content, ranging from disgust and cynicism (“they’re all corrupt”), through tolerance and acceptance, to the opposite pole of perverse delight (“that Jack Murtha [a legendary Congressional earmarker, recently deceased] was remarkable, wasn’t he?”). Such emotional reactions can be based on a well-developed appreciation of the possibilities and limits of political institutions; at other times, their foundation is willful ignorance.

The latter approach is not feasible especially for those who fill the top ranks of public financial management and who thus interact frequently with politicians. But neither should it be adopted by others.

Here’s a sample water cooler test that I believe should be of interest to all PFMs in the United States. A commonly-held view in the U.S., which I share, is that the federal budget process is broken.(Meyers, 2009a) Can it be fixed?

Below are three different views recently expressed by respected experts and commentators, the first two related to the budget process specifically, and the latter to a Senate

legislative procedure, the filibuster, that has strongly influenced Congressional budget procedures. Read through these quotes with an eye towards a class session on political institutions and the budget, and imagine what discussion questions you might want to pose. Think also what research findings might apply to the various assertions made by the commentators. (One could go through a similar exercise on what to do about the European Union's current crisis in economic governance.)

From Stan Collender, a Washington budget pundit and consultant:

I was asked three times last week by different policymakers whether a new Congressional budget process should be considered this year. The answer is no, no way, absolutely not and don't even think about it. Here's why. . .

There's simply no consensus about the fiscal equivalent of where you want to end up at the end of the day's hike, that is, on what a new process should accomplish. Without that type of consensus, any new budget process is virtually doomed to fail. Because there will always be questions about its legitimacy and value, there will be a strong tendency not to implement it. . .

This is why time or energy shouldn't be devoted now to developing a new budget process. That should only happen after some type of consensus has been reached about what needs to be done on the budget, but a new process is not a substitute for whatever that ends up being.

In fact, that's what's happening now with the current budget process. Because there's no agreement on what should be done or what the priorities should be, the process has gotten bogged down every step of the way as the disagreements about the best path to take mean that battles are continuously fought and nothing is ever settled.

The good news is that coming up with a new budget process won't be that difficult once a consensus is reached about what it should do. Unlike the situation in the 1970s, when the Congressional Budget Act was debated in some form for over two years, we now know a great deal more about how a process could and should work. My guess is at that point the basic outlines of a process will take only about an hour to develop. (Collender, 2010)

From Robert D. Reischauer, Urban Institute President and ex-Congressional Budget Office Director:

Don't assume that budget process reforms--that is new procedures for making decisions about spending and revenues--can substitute for or create political will. The solution to our fiscal problems will not be found in a balanced budget amendment to the Constitution, line item veto or beefed up rescission authority for the President, a joint rather than concurrent budget resolution, biennial budgets, discretionary spending caps or

strengthened PAYGO rules. History has shown that if lawmakers do not want to rein in spending or raise taxes to curb deficits, no procedural reforms can make them do it. Congress and presidents have had no qualms about eviscerating or evading procedural requirements that have proven too politically costly. At most, such reforms can stiffen the backbones of lawmakers so they stay a course that has already been enacted or provide some modest political protection to those who are already committed to deficit reduction.(Reischauer, 2010, p. 2)

From Ezra Klein, Washington Post blogger:

So how to change Congress? Well, carefully. Reform may be impossible in the day-to-day context, as the minority cannot unilaterally disarm itself. [here he is referring to the filibuster controversy] . . .”You have to do the John Rawls thing,” says John Sides, a political scientist at George Washington University. “Go behind the veil of ignorance. Figure out the system we’d want without knowing who will be in charge or what they will be doing.”

This work should start with a bipartisan group of legislators charged with reforming the rules that Congress works by, but their recommendations should only go into force in six or eight years, when no one knows who will hold the gavel. That lets everyone think of themselves as a potential majority as well as an embattled minority, and more important, it lets members of Congress focus on the health of the institution rather than their fortunes in the next election.(Klein, 2010)

Perhaps the class could start with a general discussion of the conflicting theories inherent in these statements, which could be summarized as:

- budget institutions have no effect on budget outcomes (unless politicians desire that the institutions appear to have an “effect”);
- budget institutions only affect budget outcomes by slightly increasing the commitment of those who have agreed to some proposed outcomes to live up to this agreement; and
- budget institutions have such an important effect on budget outcomes that those who benefit from how the current process determines budget outcomes will not agree to change it (unless that future benefit becomes sufficiently small due to uncertainty of being in control of the process at a later time).

The class could then address specific questions suggested by the statements:

- Is Collender’s point about designing the basics of a budget process in an hour just hyperbole? If the process now enables those who vote against adopting tax increases and spending cuts to

generate blame against those who support those deficit-reducing actions, then how could binding agreement to end such blame generation be reached?

- Is Reischauer correct to lump together all proposed changes to the budget process? And what is “political will,” anyway? Is it simply an increased preference for deficit reduction compared to the past, and if so, from where does that come? Why would a formal commitment make enforcing deficit reductions more likely, but any proposed process for reaching such a formal commitment have no effect on the likelihood of reaching that commitment?
- Is Klein’s solution to the prisoner’s dilemma realistic? Instead, aren’t constitutions, legislative rules, and budget processes typically imposed by dominant regimes? What might stimulate such a far-seeing action such as the one that he proposes?

Then the class could discuss whether these statements exhaust the range of plausible theories about the effects of budget institutions on budget outcomes. It could also analyze how these statements relate to available research--presuming, of course, that relevant literature is on the syllabus. Klein cites two academic experts in support of his proposal, while Collender and Reischauer do not explicitly base their analyses on historical knowledge about the U.S. process, including long personal experiences. To paraphrase Seinfeld, “not that there’s necessarily anything wrong with the latter,” given how much can be learned through participation. But it is interesting how much “inside the Beltway” discussion of budgetary political topics is largely uninformed by academic perspectives--a quite different reality than for macroeconomics (despite the obvious lack of consensus in this field). It is possible that budget pundits might be missing something.

To explore that possibility, this paper next describes how political institutions are defined and studied by the social sciences. It then makes a a brief survey of some leading research by academics and academically-oriented practitioners using comparative political economy methods.

What is a “political institution?”

Most works in the budgetary literature have not been explicit regarding their conceptual approaches regarding institutions.

In an extremely perceptive article about “thinking institutionally,” Hecló observed that most humans don’t think much about institutions. Institutions are what we tend to take for granted. We don’t think about drinking water until we lack a critical supply, and we tend to pay notice to institutions only when they fail in some way. But being inattentive is quite risky if everyone is. Hecló follows Burke by claiming that we would be better off if more people practiced “thinking institutionally”--appreciatively receiving things of value that have been handed to us by previous generations and being responsible for what we leave to future

generations. His proposed test for thinking institutionally should be similar to the time-inconsistency challenge of public finance, in the form of the question: “Would I want to be my own successor in this office?”(2006, p. 741).

Heclo distinguishes this idea from “thinking about” institutions--the recurrent, often skeptical activity of social scientists. Yet while thinking about institutions is popular in the social sciences, the “institutions” that are being thought about are defined elastically, to say the least. As the political historian Julian Zelizer recently wrote:

Over the past decade, scholars have been using the term “institutions” pretty much to describe everything, so much that the term sometimes risks losing its meaning and power. Institutions could easily become to political scientists what culture sometimes is in the humanities--an explanation for everything and nothing.(2004, p. 132)

So it is desirable to explore very briefly the most important conceptualizations of “institution” and the associated methods of studying them in the social sciences--“institutionalisms” that utilize different methods and concepts.

These institutionalisms are loosely allied with the separated disciplines of the social sciences, and come in older and newer variants. A very useful survey is presented by Goodin (1996). Each discipline emphasizes different ideas when studying institutions: historians time, sociologists the collectivity, economists choice and incentives, and political scientists power. Understanding by each discipline can evolve--for example, the “assume a contract-supporting institutional environment” approach of classical economics has been (one can hope) replaced by North’s work on the historical development of such environments.(1990) Goodin’s summary of the complementary themes of such new institutionalism is worth quoting at length:

1. Individual agents and groups pursue their respective projects in a context that is collectively constrained. . .
2. Those constraints take the form of institutions--organized patterns of socially constructed norms and roles, and socially prescribed behaviors expected of occupants of those roles, which are created and re-created over time. . .
3. Constraining though they are, those constraints nonetheless are in various other respects advantageous to individuals and groups in the pursuit of their own more particular projects. . .
4. The same contextual factors that constrain individual and group actions also shape the desires, preferences, and motives of those individual and group agents. . .
5. Those constraints characteristically have historical roots, and artifactual residuals of past actions and choices. . .
6. Those constraints embody, preserve, and impart differential power resources with respect to different individuals and groups. . .
7. Individual and group action, contextually constrained and socially shaped though it may be, is the engine that drives social life.(pp. 19-20)

This is a much broader conceptualization of institution than the older one of the formal organization. The latter approach has been especially important in political science, which focuses on authoritative decision-making, an activity usually carried out by formal organizations. (Blondel, 2006). As we will see below, current U.S. budgetary texts and pedagogy still rely on this approach. They examine in detail, for example, budget offices and appropriations committees, explaining their organizational cultures and typical roles of employees (the budget examiner's neutral competence vs. the appropriations clerk's mix of Treasury guardianship and political advocacy).

Newer conceptualizations of institutions often escape the bounds of formal organizations. To many economists, institutions are simply the "rules of the game" played by self-interested individuals. Goodin succinctly describes how economics conceives of how people react to institutions as: "The role of institutions, economically, is seen as reducing costs associated with uncertainty over time."(p. 23) So people respond to established rules with stable behaviors, creating equilibria that serve their own purposes, though perhaps not socially optimal ones.

This approach is not very helpful when trying to understand how institutions change. One of my favorite examples comes from an otherwise hyperrealistic book, in which Easterly proposes to end corruption with this recommendation: "First, set up quality institutions" (such as contractual rules and a meritocratic civil service). (2001, p. 252) If only it was that easy. In contrast, political scientists have thought more about "institutionalization"--how institutions develop, strengthen, and fall apart. Again, Goodin is a useful source, with his categorization of the forces of institutional change: accident, evolution, or design, and likely, all three. However, many recent institutional works in the social sciences are more concerned with explaining stability rather than change.

While there have been many attempts to categorize competing forms of institutionalism, Schmidt's approach is useful here, in part because she proposes a cease-fire between warring camps.(2006) The economic approach described above is also known as rational choice or political economy, and the alternative that emphasizes the development of formal organizations over time is typically known as historical institutionalism(see also Pierson and Skocpol, 2002). The third style--sociological--emphasizes the roles of culturally-specific norms--an approach that was central to Wildavsky's work on budgeting.

Schmidt adds to these common categories a fourth: discursive institutionalism. This approach "considers the discourse that actors engage in the process of generating, deliberating, and/or legitimizing ideas about political action in institutional context according to a 'logic of communication'."(p. 1) At first impression, this conceptualization may threaten to bring us back to Zelizer's critique noted above--if institutions are not only formal organizations, rules, and norms, but also ideas and preferences, what social phenomena are not institutions?

Schmidt's response is that it is critical to understand how ideas about institutions are discussed within existing institutions, in order to better understand how the institutions change. The alternative is to accept an unrealistic continuity that results from an equilibrium of self-interest, from historical path dependency, or from norms imposed by a strong culture. In contrast, when change occurs, it does so

by redefining interests as opposed to merely reflecting them in rationalist calculations, by reshaping historical paths as opposed to being shaped by them, or by recreating cultural norms as opposed to reifying them.(p. 12)

In an extension of this argument, Schmidt (2008) outlines concepts of when discourse can make institutions contingent on agents' thoughts, words, and actions. Elites may coordinate with each other, and communicate with the public. They engage in "background ideation" to understand how institutions work, and use their "foreground discursive abilities" to

think, speak, and act outside their institutions even as they are inside them, to deliberate about institutional rules even as they use them, and to persuade one another to change those institutions or to maintain them.(p 314)

By now, you may be wondering: what does the preceding have to do with training the next generation of PFMs? Return, then, to the above arguments by Collender, Reischauer, and Klein about the limits to reform of budget institutions. Are their prophecies of failure from institutional reform justified, or just self-fulfilling cynical prophecies? If Schmidt is right, the latter answer might be correct. For reform of budget institutions could require intentional discourse about how to jointly change expectations. Instead of just "thinking about institutions," PFM could "think institutionally" about the process. They could imagine how to change incentives, modify organizational structure and process, and strengthen norms, in order to improve budget outcomes.

The next section describes how political economy institutionalists have attempted to do that. I focus on this school in part because most budget experts in the U.S. are at least implicitly more attracted to historical or sociological institutionalisms.

Recent political economy research on budgetary institutions

This section draws very selectively from a huge research literature in cross-national political economy to summarize several important arguments made in this research tradition. I emphasize it in part because its approach is often viewed as being more "scientific," since it often makes statistical inferences about political institutions from large N databases. Alt (2002) provides a summary of the field's origin and orientation.(see also Shah, 2007) Though I have strong concerns about some of the methods and conclusions of the line of research, I believe it is important enough that all basic courses on budgeting should pay it some attention. However,

from my review of ABFM syllabi, with some rare exceptions (for example, Jim Savage's course on comparative budgeting and economic policy at the University of Virginia), citations of the modern political economy literature on budgeting are missing.

Relatedly, the political economy research tends to make strong prescriptions based on its findings. It typically has an explicit priority concern about fiscal unsustainability, and recommends institutional designs which research indicates may promote sustainability. For example, a recent International Monetary Fund (IMF) paper on how to "renormalize" fiscal and monetary policies in advanced economies, in the wake of the Great Recession, suggested that

to buttress the fiscal adjustment [of spending cuts and tax increases], developing further and strengthening institutional arrangements such as medium-term fiscal frameworks, fiscal responsibility laws, fiscal rules, and fiscal councils would be important.(2009, p. 13)

The most productive researchers in this tradition have been von Hagen and Hallerberg, with various colleagues. Their most recent publication, *Fiscal Governance in Europe* (2009), develops sophisticated indexes of budget institutions in European countries, and demonstrates through cross-sectional and time series analysis that electoral system-appropriate centralizing budget institutions promote more prudent budget outcomes. This book follows Hallerberg's related investigation of the effects of centralization in individual European countries(2004). Some other notable examples of this approach are: Poterba and von Hagen (1999); Persson and Tabellini (2005); and for an up-to-date piece, Wehner (2010).

The modern political economy approach typically starts from the assumption that individual politicians face strong incentives to overdraw from the government's common pool resources (its revenue base and debt capacity) by promoting spending programs that benefit narrow sets of supporters. These incentives include competitive elections that shorten the time horizon of elected officials, in part because voters downplay the long-term costs of running deficits compared to current benefits. Voters may simply be myopic, or the victims of fiscal illusion, which can result from partisan competition that reduces fiscal transparency. Information asymmetries are traditional in this approach, as they were in Niskanen's classic principal-agent model of excessive bureaucratic supply.

The research proposes a variety of solutions to the problem. Centralization of budget authority is the most frequent one. Some of the earlier literature tended to promote centralization regardless of context--a stance that has always struck me as being particularly insensitive to countries with authoritarian heritages. von Hagen and Hallerberg have developed a more contextually-intelligent approach, in which the style of desirable centralization depends on the partisan political institutions through which governments are formed. Delegation to a strong Finance Minister is preferred for first-past-the-post election systems that tend to generate majority governments. Proportional representation systems instead tend to produce minority parties, necessitating coalition formation and making it undesirable to delegate veto power to a

Finance Minister who would favor her party of origin. In this situation, “centralization” takes the form of contracts between coalition partners on the fine details of the budget for the term of the government.

Before describing another topic that has been focus of research in the political economy approach, I mention some criticisms applied to the centralization model. The most important is about the method, on grounds of reductionism. For example, Schick commented on studies of political regimes and fiscal rules:

Most of them assign weights to different elements of political regimes or fiscal rules, aggregate the weights for all the elements, and correlate the score with fiscal outcomes. This method reduces politics and finance to a few elements and ignores much of the inherent complexity of political regimes and fiscal rules, slighting informal or behavioral characteristics.(2004, p. 85; see also Tilly and Goodin, 2006; Andrews, 2010, 2008)

He and others suggest that country-specific studies are needed to understand context--for example, Wanna, Jensen and de Vries, (2003) on central budget agencies, or Savoie (1999) on Canada. Like the latter source, my own work has found some problems with overcentralization. Maryland’s Governor is the most powerful in the fifty states, as the constitution prevents the legislature from adding funds to the operating budget for the budget year. The legislature has reacted by mandating spending in future years and using other techniques that reduce budget flexibility.(Meyers and Pilkerton, 2003)

In addition, if centralization is necessary, does the fact that political economy researchers have also called for competition with the central budget authority suggest that centralization is an insufficient? Debrun, Hauner and Kumar (2008) have analyzed the merits of independent fiscal authorities and fiscal councils, which could variously provide objective analysis and help guide government in setting fiscal targets. The exemplar of this approach is the U.S. Congressional Budget Office. Its political attractiveness is perhaps best illustrated by the recent establishment of an Office for Budget Responsibility in the UK (by the Conservative-Liberal Democrat coalition, a contractual government in a would-be strong Finance Minister system). (See also Graafland and Ros, 2003, regarding how the Netherlands Office of Economic Policy Analysis, aka CPB, assesses the parties’ election platforms)

Another normative concern, one that is raised less frequently than I would expect, responds to the researchers’ position that the lower the deficits and debt, the better. In fact, deficits and debt vary in their effects over the business cycle and across countries--that is, whether they are problematic depends in part on the timing and composition of policies that produced them, and on factors such as whether countries borrow in their own currencies. In addition, budget institutions should serve other goals, such as allocating resources in response to public preferences. Centralization is not at all guaranteed to produce the latter result.

A second focus of the political economy approach has been the potential effectiveness of fiscal rules. Here the IMF has been especially prolific.(2009; Kopits, 2001) Its most recent study compiles a large data set--80 countries--and concludes that “the use of fiscal rules is on average associated with improved fiscal performance.”(p. 3) It defines rules as numerical limits on budgetary aggregates (balance, debt, expenditure, or revenue) that can be simply communicated. It presents a nuanced pro-con analysis which acknowledges that rules must be flexible to deal with large macroeconomic shocks, and are more likely to maintain previous commitments to adopt prudent policies than to stimulate adoption of those policies.

A previous IMF paper, by Debrun and Kumar (2007), reached a similar conclusion after an empirical analysis of how the primary balances of 14 EU countries responded to tightening in (an index of) fiscal rule restrictiveness and coverage, and to the presence and potential influence of fiscal councils. This paper is sufficiently nuanced to suggest that Schick’s criticism of reductionist studies may not apply fully to it:

The effectiveness of fiscal institutions is likely to be country-specific. This suggests that panel analyses--which are now common in quantitative approaches of fiscal behavior--should pay attention to cross-sectional heterogeneity. Specifically, the model illustrates the important role of transparency and democratic accountability (and by extension, of the broader political context). Indeed, to the extent that a fiscal rule crystallizes social consensus on what constitutes “optimal” policy, it will be used by voters to assess fiscal performance, possibly leading them to hold the incumbent accountable for complying with the rule. Democratic accountability can be a sufficient enforcement mechanism and make the rule credible. Of course, accountability works best if budgets are transparent--in the sense that its components are perfectly observable by voters.(p. 23)

The bottom line is that:

Our theoretical analysis suggests that intrinsically well-behaved governments may adopt strict institutions merely to signal competence, pointing to reverse causality (from good outcomes to good institutions) in standard least-squares regressions.(p. 5)

A broad policy conclusion emerging from our findings is that rules can provide an important signaling mechanism that can help crystallize underlying preferences for good fiscal behavior, and thereby strengthen the reward for being well-behaved (e.g., through greater re-election changes, but also lower borrowing costs) To put it simply, rules and institutions work best when they are not meant to be binding. However, when they become truly binding, rules may well work effectively only to the extent that there is enough political capital to support their enforcement, or that there are high costs to bypass them, including the action of external enforced or a strong response from capital markets.(p. 41) (See also Dabla-Norris, et. al., 2010; Fabrizio and Mody, 2006)

The reader may recognize that this research potentially confirms the position of Reischauer reported above. (For a skeptical analysis of fiscal rules by economists not working in the political economy tradition, see Anderson and Minarik, 2006); for a mixed view, see Penner and Steuerle, 2004.)

A book representative of political economy work on fiscal rules was recently published by Primo.(2007) Like much work in this tradition, it is firmly based in game theory, confident of that method's ability to generate insights. From my perspective, the simplifying assumptions made in these models are much too strong to accommodate important empirical realities. But for the sake of argument, let's assume I am wrong. Primo's modeling suggests that a fiscal rule's impact depends on its interaction with other rules (that seems plausible), and that a rule is likely to be effective only if enforced exogenously (this is a very hard condition to satisfy). Otherwise, short-term political self-interest drives actors to go back on an agreement, for nothing will assure that parties to this agreement can credibly commit to living up to their promises.

Here the crux issue is whether written rules, enforceable by others, are necessary to change expectations about the future.(Schick, 2004, 1998) A related issue now faces Britain, again, as a new government proposes changes to "constitutional" conventions (Budge, 2007, p. 83; the quotes are based on the American concept of a constitution). It is one thing to suggest that committing a principle to "parchment" will strengthen obligations to honor it (Carey, 2000); it is quite another to conclude that it is impossible to improve budgeting by the widespread acceptance of new norms that reject behaviors driven solely by self-interest. Here is where Schmidt's approach of discursive institutionalism is relevant, for it holds out the possibility that expectations about budget institutions might be changed without resorting to the extreme straight jackets of fiscal rules and central budget authorities. It suggests a "continuous and unending" process of self-consciously improving budgetary institutions. (Wanna, et. al., 2000, from one of the best historical institutionalist studies of budgeting)

The pedagogical response

Almost all PFMs, at least in the United States, are not exposed to this work. Findings from and citations to the political economy research are almost completely absent from U.S. budgeting texts and from syllabi in the ABFM collection.

However, one can also see that most of the texts provide some coverage of similar ideas, though more parochially concerned with the United States, once "centralization" is translated into "top-down budgeting" and "fiscal rules" into "balanced budget" or "enforcement" provisions. Regarding the latter, Mikesell includes a short discussion of federal deficit controls, such as debt limits, budget targets and enforcement, and several pages on state and local governments' legal constraints. Lee, Johnston, and Joyce provide several pages on balanced budget requirements and on the balancing process, paired with some pro-con analysis, such as noting the potentially procyclical effects of fiscal rules. Lewis and Hildreth reprint NASBO's

50-state table of balanced budget requirements, and add a brief but useful discussion fiscal rules, emphasizing their dependence on supportive norms. Wildavsky and Caiden have a whole chapter on budgeting, drawing mostly on journalistic sources, as does Rubin, who relies more on expert practitioner sources.

What are students missing by not being exposed to the comparative work? An expanded menu of alternatives, one that is not culture bound, for reforming budgetary institutions. Encouragement to explore the possibility of reform, rather than being chained by path dependence. An opportunity to consider whether there are general principles for budgetary institutions. And a target for methodological critiques.

At the risk of being presumptuous, I think my approach to teaching about political institutions is preferable. My graduate course (<http://userpages.umbc.edu/~meyers/623syl.htm>) is relatively heavy on political aspects of budgeting (though note that much technical material is not visible here; rather it's on a restricted Blackboard site). Like most other courses, it spends a lot of time on budget preparation and analysis within organizations, including performance budgeting. But it also includes one reading on representation and public opinion in tax politics, a week on advocacy and interest groups in relation to budget allocation methods, a week on the Congressional budget process, and a week on institutional alternatives. The latter includes readings on participatory budgeting, the von Hagen framework, fiscal rules, and an independent fiscal agency (Netherlands). The assignment for this week last fall was:

On November 10, the Senate Budget Committee held a hearing on "Bipartisan Process Proposals for Long-Term Fiscal Stability." Statements at the hearing can be found at: <http://budget.senate.gov/democratic/hearingstate.html>. These statements all support adoption of a "budget commission," along the lines of the following proposal from 2007 <http://budget.senate.gov/republican/pressarchive/2007/2007-09-18TPs&Chart.pdf>. Note that the hearing did not feature any opponents of this approach. For this writing assignment, analyze whether the Congress and President should adopt this approach or not.

I graded this assignment based on how the students incorporated ideas from that week's readings and previous classes on political institutions.

My pedagogical approach is consistent with Schon's insights about teaching reflective practitioners. I agree with him that

The problems of real-world practice do not present themselves to practitioners as well-formed structures. Indeed, they tend not to present themselves as problems at all but as messy, indeterminate situations.(1987: p. 4)

Many practitioners, locked into a view of themselves as technical experts, find nothing in the world of practice to occasion reflection. They have become too skillful at techniques

of selective inattention, junk categories, and situational control, techniques which they use to preserve the constancy of their knowledge-in-practice. For them, uncertainty is a threat; its admission is a sign of weakness. Others, more inclined toward and adept at reflection-in-action, nevertheless feel profoundly uneasy because they cannot say what they know how to do, cannot justify its quality or rigor.(Schon, 1983 p. 69)

So, as the position description states, the successful practitioner “Perceives organizational and political reality and acts accordingly.” He would be well-advised to learn the personal quirks of his appropriations subcommittee chair.

That’s unavoidable, of course. But if the professional world so emphasizes such realities, the ivory tower should aspire to something different. It should supplement its description of institutional reality with training in how to prescribe something that might be better. Following Schon, it can best do so through practicum cases. Following Schmidt, it should train students in discursive institutionalism.

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