PUBLIC FINANCE MANAGEMENT

THE SCOPE FOR IMPROVEMENT

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PROBLEM OVERVIEW

Scholars and practitioners across the world have devoted sustained attention to finding efficient and effective ways to responsibly manage public finance. I focus my research on understanding how innovations in a particular technique known as “planning, programming, budgeting” (PPB) might improve theory and practice on public finance management (PFM).

Generally speaking, PFM could be defined as the administration of funds that are used to deliver public services; and the budget process is a set of procedures of building a financial plan, relying on which these funds are spent.

The overall distinguishing feature of PPB is that it attempts to link budgeting allocation to performance objectives through attention to five key steps, including 1) program structure; 2) outputs; 3) decision-making process; 4) program evaluation; and 5) information systems.

Advocates argue that PPB can assist advanced strategic planning including how to prioritize and implement objectives over time. I focus specifically on 'lessons learned' from the application of PPB in the US during the 1960s, and, whether, when, and how these insights can be applied in the contemporary context world-wide.

THE US PPB EXPERIENCE

Originally, program budgeting was born of the marriage between the Progressive Era concept of a functional budget and techniques from systems analysis and economics that were developed in the 1930s and 1940s. Taken together, PPB focused on evaluating activities by assessing their objectives. As a tool for management and policy making, it fostered thinking about rationalization of resources and responsibility allocation across administrative agencies.

Basing on what many viewed as positive Department of Defense (DoD) experiences administering PPB, President Lyndon Johnson extended PPB, in 1965, to the entire federal government. Indeed, the failure to think about the system comprehensively was precisely the kind of the problem that PPB was designed to address. Moreover, cost-effectiveness, achieved by the means of profound program planning, became a distinctive feature of this approach.
However, that government-wide initiative was formally abandoned in 1971. Yet PPB was maintained at DoD for other 30 years, implying that some agencies were more suited for this approach than others.

Scholars have argued that the abandonment of PPB outside of DoD was owing to extensive resource requirements (enormous time commitment, lack of staff with sufficient level of expertise, inadequate reform funding) as well as organizational inertia. In addition, there was no agreement among authority bodies upon the way PPB should be implemented. Even if the bureaucracy had made better efforts to include the legislature, observers pointed out that Congress was less than an ideal partner in efforts at rational planning and resource allocation. For instance, Congress strongly opposed the leading role of the Bureau of Budget fearing over-centralization of its power.

Arguably the most important challenge was the difficulty in specification of organizational means and ends. The assumption of PPB that government objectives and the means to accomplish them could be ordered in a hierarchical fashion did not fit with multiple agencies objectives serving under coherent program structures. In fact, outside of DoD, there was no authority to promote the kind of rational coordination that PPB sought to achieve.

**STRATEGIC PLANNING AS AN ESSENTIAL COMPONENT OF PFM**

Regarding all possible reasons for PPB failure, it is necessary to admit that the lack of systemized strategic planning across federal authorities could be considered as the major impediment, and as a result, it brought all potentially fruitful initiatives of PPB reform to naught.

In fact, a sound system of strategic planning is able to improve almost all flaws of program based budgeting, which, as stated above, was initiated during budget reform of 1965 in the USA and led to its failure in 1971. That is why DoD, which at that time had the most advanced system of strategic planning due to its close affiliation with RAND and specificity of its activity highly dependent on planning and accountability, managed to keep the concept of PPB afloat for several decades.

First and foremost, strategic planning is an effective means to incorporate operational goals into annual budget that helps to strike the balance between desirable output and available input, as well as to strengthen their measurability. Apart from that, due to legal procedures of the budget adoption, legislative branch inevitably gets involved into resource allocation process.
Furthermore, the requirement for federal agencies to engage into strategic planning for the purposes of articulating their missions and defining the subordinate goals, programs, activities, and resources that contribute to those missions, is a highly progressive step in advancement of public finance management. This measure is meant to define clearly the areas of competence and to encourage coordination of steps forward to advancement of strategic planning across federal level despite its inherent organizational inertia.

Moreover, the development of performance plans covering each program activity set forth in the budget helps greatly to overcome the drawbacks and limitations of PPB. Usually, the purposes of these plans are:

1. To establish performance goals and to define the level of performance to be achieved by a program activity.

2. To express such goals in an objective, quantifiable, and measurable form unless authorized to be in an alternative form.

3. To briefly describe the operational processes, skills and technology, and the human, capital, information, or other resources required to meet the performance goals.

4. To establish performance indicators to be used in measuring and assessing the relevant outputs, service levels, and outcomes of each program activity.

5. To provide a basis for comparing actual program results with the established performance goals.

6. To describe the means to be used to verify and validate measured values.

Even though these elements of strategic planning seem to be quite basic, they facilitate the coordination and allocation processes within public sector.

**SUMMARY**

To conclude, planning, *programming, budgeting system* can be regarded as a plausible solution to current public finance management inefficiencies (associated with budget imbalances and the ad hoc creation of budget programs). However, the success of PPB is vitally dependent on effectiveness of *system of strategic planning*, including a considerable attention paid to elaboration of reasonable and comprehensive performance indicators.
REFERENCES


