Christiane Lorenz

**The Impact of Performance Budgeting
on Public Spending in Germany's *Laender***

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With a foreword by Prof. Dr. Berthold U. Wigger

RESEARCH

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dedicated to my beloved father

Foreword

Under the title New Public Management the Anglo-Saxon countries started in the early 1980s to introduce incentive-oriented instruments in the public sector. The underlying motive was to make administrative processes more efficient and more cost-effective and to limit spending growth. One decade later, Germany followed a similar strategy under the label “Neues Steuerungsmodell”. The present work deals with selected instruments of this new governance model, namely with those instruments which are attributable to performance budgeting. The present study examines how the introduction of performance budgeting instruments has affected the extent of public expenditure in the German states. This is an issue of major importance as all German states are bound to fiscal austerity as a consequence of the public debt brake that is now part of the German constitution. The present study thus contributes to a very vibrant issue of public finance. This is even more so as it is the first econometric study on performance budgeting at the German state level. In a first step, the present study establishes a definition of performance budgeting that allows for an econometric approach. The subsequent empirical analysis examines the impact of performance budgeting on the spending habits of the German states. The study shows that the use of performance budgeting instruments initially leads to higher public spending. In the longer term, however, performance budgeting has the potential to limit spending in the public sector. Not all instruments, though, are equally suited to contribute to more cost efficiency. The study clearly identifies the relative importance of different performance budgeting tools for cost-effective financial planning.

Christiane Lorenz has prepared an excellent analysis of a scientifically and practically very exciting subject. The present work provides a detailed introduction into the concept of performance budgeting and develops a persuasive quantitative approach that allows to assessing how effectively performance budgeting has been deployed in the German states. The present study substantially contributes to our quantitative understanding of incentive-oriented public governance. I am convinced that the present work will find great interest to all those who are either scientifically or administratively concerned with financial planning in the public sector.

Berthold U. Wigger

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Christiane Lorenz

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List of Abbreviations

BGBI	Bundesgesetzblatt
BHO	Bundeshaushaltsordnung
BRH	Bundesrechnungshof
DST	Deutscher Städtetag
EUR	Euro
GASB	Governmental Accounting Standards Board
GDR	German Democratic Republic
GPRA	Government Performance and Results Act (in the USA)
HGB	Handelsgesetzbuch
HGrG	Haushaltsgrundsätze-gesetz
HGrGMoG	Gesetz zur Modernisierung des HGrG
HRFEG	Gesetz zur Fortentwicklung des Haushaltsrechts
IMK	Innenministerkonferenz
IPR	Integrierter Produktrahmen
KGSt	Kommunale Gemeinschaftsstelle
LHO	Landeshaushaltsordnung
MbO	Management by Objectives
MoF	Ministry of Finance
MTF	Medium-term Framework
NPM	New Public Management
NSM	Neues Steuerungsmodell
OECD	Organisation for Economic Co-operation and Development
OLS	Ordinary Least Squares
OMB	Office of Management and Budget
PART	Program Assessment Rating Tool (in the USA)
PB	Performance budgeting
PPBS	Planning-Programming-Budgeting System
PSA	Public Service Agreement (in the UK)
UK	United Kingdom
US	United States (of America)
VIF	Variance Inflation Factor
ZBB	Zero-based Budgeting

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