5 Impact of performance budgeting on public spending in the German Laender

In chapter 3 we have seen how performance budgeting or single elements of it have been implemented in various nations, how it influenced the budgeting systems worldwide and which impact it had on efficiency, effectiveness and fiscal discipline so far. In this chapter I want to provide a deeper insight into the case of Germany. Before analyzing the impact of performance budgeting elements on German state expenditures, it is suitable to first view the reform efforts that were taken on different federal levels in Germany in the last decades.

5.1 The institutional framework

Germany remained basically unimpressed by the international New Public Management reforms in the 1980s. Wollmann (2000) argues that the relatively good performance of the German administration and the traditionally rather great distance of the government to society were reasons that encumbered the development of the NPM debate in Germany. Only in the 1990s, ten years after the first NPM waves, Germany participated in the international debate. This sudden understanding may be traced back to the enormous public debt levels in Germany at that time which were intensified by the German Reunion (Lüder (2002), Wollmann (2000)). Moreover, the Maastricht conditions had given rise to high pressure on stronger fiscal discipline in the future (Wollmann (2000)).

In many countries, especially in the pioneer nations, the administration reforms according to the New Public Management were introduced simultaneously on all federal levels or began at the national level. In contrast, in Germany the municipalities were the pioneers and enforced reforms. The German counterpart to the New Public Management approach was a new concept elaborated by the KGSt (Kommu- nale Gemeinschaftsstelle) in 1993 (KGSt (1993)) named the New Steering Model (Neues Steuerungsmodell). Originally designed for the local government, it was also applied by the federal states later on. The New Steering Model based on the Tilburg Model of public management reform and successful elements from New Zealand’s reform models and included new concepts for different parts of the pub-
lic sector management. This also included the output orientation and contract management, for instance through the introduction of cost-performance-calculations in the budgeting area. From 1991 onwards several municipalities experimented with some elements of the New Steering Model. Most of them focused only on single administration units. Then in 1993, more municipalities started with reforms and the new concept “disseminated like a bush fire” as Reichard (2003) states. In contrast to other international concepts, such as in the UK or the USA, which focused on a ‘lean state’ through privatizations, the New Steering Model is led by the idea of competitiveness through good performance (Banner (2006)). The main motive of the NSM, like the general NPM idea, is a greater management orientation of public authorities and state-owned enterprises and a modernization towards a service-oriented administration. Regarding citizen orientation the NSM as a concept for the local government level coined the term Bürgerkommune (commune of the citizens). After the first years of practical experiences the original NSM concept by the KGSt was extended and now contains reforms of the inner and outer dimension (Bogumil et al. (2007)). Table 5.1 summarizes the core aspects and some of the instruments.

Performance-based budgeting as one part of the New Steering Model was initialized on the local level before swapping over to the state level and only then to the national level. As Lüder (2007) analyzed, Germany belongs to the late and slow reformers with a high risk aversion and an investment hampering context. This “usually means cautious, gradual and slow change in order to secure reversibility” (Lüder (2002), p.237). He also was the one who criticized that the central government stood on the sidelines too long, whereas municipalities and states were putting effort into reforms. Others would justify the hesitation on the federal level with a prudent and cautious waiting until communes and states have brought out best practices. Remarkable in the NPM process in German speaking countries is that the new structuring of the public sector was first seen by the business administration side and concentrated on management theories. Regarding the budgeting and accounting reforms, it was also the business administration researchers that started the reform process, in Germany especially the practitioners (Schedler (2006)). Only slowly the politics adjusted the reform approaches for practical use and implementation. I will give an overview of the reform processes on the different federal levels in Germany in the following paragraphs.

In Germany regulations on budgeting and accounting are constituted in different laws. Articles 104 - 115 of the German constitution (Grundgesetz) regulate the basic norms of the financial system. It determines which expenditures are to be borne

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