Dutch Budgeting in EMU

Europeanization of a national policy process

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Dutch Budgeting In Economic and Monetary Union

Europeanization of a National Policy Process

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1. Introduction

1.1 The importance of budgeting in Public Administration

> "Public budgeting is the process by which the financial policy of a government, including its monetary requirements, is formulated, adopted and carried into effect. This process is by no means a simple affair. It involves all the departments and agencies of the government through which moneys are raised or expended; it touches all the economic resources of the community or of the country which are taxed for the support of that government." (Buck, 1929, p. 3)

Thus begins an early study on public budgeting. Since 1929, many influential scholars of Public Administration have written on this subject, for example Johan P. Olsen (1970), B. Guy Peters (1995), and of course most notably, Aaron B. Wildavsky (1964, 1986, 1992, 2001), whose work I will be drawing on extensively. But, as I have often experienced myself when explaining my research interests, for still many others it remains an area of techniques, calculations and economics, and therefore uninteresting from a perspective of Public Administration or Political Science. Which is very unfortunate since, as A.E. Buck stated in 1929, *"the budget is the most effective means yet devised for the establishment of control over the public purse. Viewed in this light, it becomes a powerful factor in the maintenance of modern government; indeed, its influence extends to the very roots of organized society."* (Buck, 1929, p. 6)

Since human desires—as well as most governments'—are unlimited whereas resources are not (Wildavsky, 1986, p. 7), government budgets depict a history of bargaining and compromising in order to allocate available funds among people and purposes. At the same time the budget is a statement about the future: funding determines which policies will be carried out, and which will remain mere campaign promises.

One description of the essence of politics is deciding how funds should be divided: from a libertarian view of a minimalist state to a socialist redistribution of wealth, it is all about how much (or how little) money goes where—or indeed, *"who gets what, when, how"* (Lasswell, 1936). However, much more so than any political rhetoric, be it a policy paper, party programme or annual intention address, the budget gives a clear, quantified overview of political preferences. It shows who won and who lost in the political arena by listing which programmes received more and which received less funding for the current cycle.

The budgetary process also makes clear where the divisions of power within government lie. The power of the purse is an extremely important power that in some cases can even bring a government to a halt. This is most prominently so in the United States, where Congress can limit the executive power by refusing to approve further funding, and thereby even paralyze large sections of government, as last happened in 1995/96 during the Clinton administration (Rainey, 1997, p. 5).

This illustrates the importance of institutional design on decision making in general, and this is no different in the case of the budgetary process. Institutions matter (James March & Olsen, 1984), also for how budgets are drawn up. How and by whom budgets are created will in part determine the outcome.

However, these instructions are not static entities: they are subject to constant change. This thesis focuses on how these institutions change. And in recent years, the European Union has been one of the largest factors of institutional change for the governments of Europe.

1.2 The European factor

'Europe'—be it the European Union, the Economic and Monetary Union, or another form of European cooperation—is having more and more impact on our daily lives. From the rates you pay when phoning home from your European holiday destination, to the currency in which you settle the bill, to having the option of making your holiday destination your permanent place of residence, it is all thanks to European policy.

Not surprisingly, this major changing factor in our public lives has evoked a large number of publications, in the mainstream media as well as in the academic world, where it is known as *Europeanization* (see Chapter 3). Comparative studies are numerous and span a wide range of policy fields, and many of these studies focus not only on finding best practices across Europe so that we might learn from our neighbours, but also on detecting converging trends.

The focus of this thesis is the ongoing European convergence in finance and economics, the changes in the budgetary institutions in the Netherlands, and the relationship between the two.

First of all, membership of the European Union has consequences for a member state's budget. Obviously, there are contributions to be paid and taxes to be turned over to the EU and at the same time subsidies and the likes coming in, but these changes in the budgetary content are not the subject of my study. What I am interested in is the manner in which the structure of the budget and the way it is drawn up, are changed by being part of the European Union. There are several European regulations regarding the budgets of the individual European member states, most of them referring to the definition of key indicators.

Second, taking part in the Economic and Monetary Union (EMU)—the EU's most ambitious and successful programme (McNamara, 2005, pp. 141-142)—has much more drastic implications. Nearly the entire monetary policy is transferred to the European Central Bank. Even though the national banks are independent from their governments—this is one of the criteria for entering the EMU—there is a major difference between having a monetary policy on national level and one monetary policy for the whole of the EMU.

Furthermore, a country taking part in the EMU first has to meet the Convergence Criteria, as laid down in the Maastricht Treaty, and once part of the Economic and Monetary Union, it has to comply with the Stability and Growth Pact (SGP). The Criteria and SGP lay down certain budgetary requirements the EMU countries have to meet.

Clearly, for countries that are part of the EMU, these changes are the most far reaching. But not only have those countries that are part of the EMU had to change their budgetary systems. The European Union member countries that are not yet part of the EMU are making changes, too, eg, adapting their budgetary cycle to run coincide with those of the other European countries. Furthermore, each EU member state (excluding those that have an opt-out clause) that complies with the criteria is in principle obliged to join the EMU. In order to accurately measure these criteria, there have to be uniform definitions of the indicators. Thus, the EU but non-EMU members have to adjust their budgetary system in at least this way.

1.3 Aim, Relevancy & Research Questions

Both budgetary and European policy have an extensive impact on government and in fact our daily lives. The European Union and especially the European Monetary Union is a controversial topic all over Europe, whether it is in countries that have joined, might have joined, or are looking to join. Many will argue that membership of the (European Community and) European Union has brought us decades of peace and prosperity, though still many others worry about giving up national sovereignty. Citizens attach a lot of sentimental value to their own coin, and see it as part of their national identity. For some politicians, giving up (what was left of) national monetary policy is a big step as well, even if this policy was not necessarily theirs to determine in the first place.

Likewise, budgetary policy is ever cause for a contentious debate: few would advocate leaving the next generations with a large debt, yet cutting taxes is ever popular with voters, and there are always more government programmes that could do with more funding.

In this thesis, these two controversial topic meet: it will examine to what extend (if at all) Dutch budgetary institutions have been affected by growing European influences. Even though the change-over from European Monetary System (EMS) to European Monetary Union (EMU), from guilder to euro, from *De Nederlandse Bank* to the European Central bank, all happened a good few years ago by the time this thesis was (finally) completed, the debate is ever current, especially in these times of crisis (eg, The Economist, 2009; IHT, 2008). One should also take into consideration that the EMU is not yet complete: in principle, all EU members are eligible for entry—even expected to enter—into the EMU, and new EMU countries can always learn from those that have gone before.

A lot of emphasis is put on best practices, on countries learning from one another, within the context of the EMU, for example in the form of the Economic Policy Guidelines. More importantly than one country learning from another is one country learning from itself: by looking at its own history, the Dutch government can acquire a greater understanding of what works, and what not. With this thesis, I hope to contribute to this process.

On the academic level, I will draw from both the existing theory on budgeting and Europeanization. By linking these two subjects, I hope to reach greater understanding of how a national budgeting process is affected by European influences, which—when the nation in question is an EU member state—are unavoidable.

Ideally, this would be a EU or EMU-wide comparative study on the subject of budgetary change, but as I am constricted in terms of time, funds and manpower, my research project will take a more modest approach and not focus on a European, but on a national level. I would like to find out how the Dutch budgetary institutions (ie, rules, actors, guidelines, process, etc.) have changed by the European cooperation in the European Union and particularly the Economic and Monetary Union.

1.3.1 Central question and sub-questions

The main question in my research is ***"To what extend have Dutch budgetary institutions changed due to EMU membership?"*** This question can be divided into these sub-questions:

1. Which developments in the Economic and Monetary Union can have (had) implications for budgeting?
2. Which changes in the Dutch national budgetary institutions have been made?

3. Which factors have contributed to these changes in the Dutch national budgetary institutions?

And as a supplementary question, which will be addressed in the concluding chapter:

4. Which recommendations can be made based on these findings?

In setting this main question, I hypothesize there is a causal connection between EMU membership on the one hand (the independent variable; sub-question 1), and changes in the Dutch budgeting policy (the dependent variable; sub-question 2). Of course, the European Union or the EMU are not the only factors changing Dutch budgeting, nor are

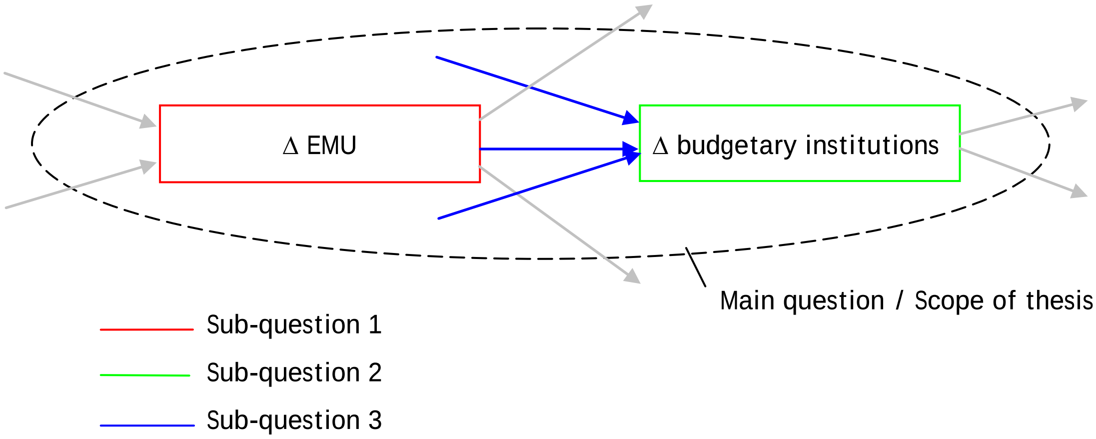

Figure 1.1 Main and sub-questions

budgeting changes the only result. Therefore in sub-question 3, I will examine which factors may have influenced budgetary institutions in the Netherlands.

Summing up, I have tried to portray the scope of my thesis as well as the different sub-questions in the diagram below.

The two boxes, change in "EMU" and change in budgetary institutions (for precise definitions of either, see the next section), represent one of the first two sub-questions each. The third sub-question is represented in the diagram by the dashed arrows pointing to the budgetary policy box, one originating from the “change in EMU” box, but two others from yet unknown origins. These three elements put together—the two boxes and the dashed arrows—represent the scope of this thesis, and thereby the answer to the main question: the changes in Dutch budgetary policy, and in how far these changes can be said to have been caused by changes in European cooperating.

In the diagram, there are other arrows (in grey) pointing to and from the boxes as well, but extending beyond the scope of this thesis, represented by the oval shape. There are factors influencing changes in the Economic and Monetary Union, and EMU developments obviously have more effects than changes in budgetary policy alone. Changes in budgetary policy, in turn, will be the independent variable instigating yet further changes. This myriad of causes and results will undoubtedly crop up in the course of this thesis—after all, the main question aims to weed out a cause and effect among many contributing factors—but are not part of the main scope.

1.3.2 Definition of key concepts

With the term *Dutch budgetary institutions* I mean the whole of formal and informal rules regarding drawing up and changing the budget of the national government. This includes laws regarding the budgetary cycle, the actors involved and especially the way the budget is drawn up and changed. This includes the budgetary norms, the rules of the game, such as the *Zalmnorm* that dominated budgeting during the Purple cabinets and beyond, but also the basic assumptions that lie at the base of the budget, and the goals pursued. These norms, assumptions and goals can in theory remain the same, but in practice change due to different interpretations. These different ways of implementations are also included in this definition.

Dutch readers please note that the Dutch term *'Begrotingsbeleid'* is generally understood to also include decisions on the *content* of the budget, such as which department will have more and which will have less to spend this year. These types of policy decisions are explicitly not part of what I understand to be 'budgetary institutions', nor are they included in the scope of this thesis. However, *'Begrotingsbeleid'* is sometimes also used to refer to a set of rules and guidelines, as for example in the context of '*trendmatig begrotingsbeleid*' or *'structureel begrotingsbeleid'*. When used in this meaning of rules and guidelines rather than the year-on-year implementation of these rules, '*begrotingsbeleid'* is part of what I understand to be budgetary institutions.

I define *EMU membership* as the cooperation during the different stages of the EMU (i.e, not just the Third Stage). Especially for sub-question 2, I focus—mainly for practical reasons—on twelve years between 1993 (Maastricht Treaty) and 2004. This period can be split up in two six-year periods: six *'convergence years'* from 1993 to 1998 covering Stages One and Two of Economic and Monetary Union, followed by six *'stability years'* from the start of Stage Three in 1999 to 2004.

1.4 Research Strategy & Design

Different types of questions require different ways of conducting research. Also whether or not the researcher has control over the events, and when events have taken place (recently or further in the past), determine which research strategy is appropriate (see Figure 1.2).

Strategy	Form of research question	Requires control over behavioural events?	Focuses on contemporary events?
Experiment	How, why	Yes	Yes
survey	Who, what where, how many, how much	No	Yes
Archival analysis	Who, what, where, how many, how much	No	Yes/no
History	How, why	No	No
Case study	How, why	No	yes

Figure 1.2 Relevant Situations for Different Research Strategies (Yin, 1994, p. 6)

My main question is *"To what extend has the Dutch budgetary policy been changed due to European influences?"*, and is thus mainly a 'how' and 'why' question ('how' has Dutch budgeting changed and 'why'?). I cannot say I have had any influence over these events, that have taken place over the past decade or so, ie, fairly contemporary to my research. Hence, a case study was chosen to be most appropriate strategy to answer this research question (Yin, 1994).

There are two forms of case study designs: the single case design and the multiple case design. Again, both are appropriate under different circumstances. One of the reasons to choose a single case can be when it "*represents the critical case in testing a well formulated theory"* (Yin, 1994, p. 38), others may be when the case in question is extreme, unique or revelatory.

In my research project, I follow two different theoretical lines: the theory on Europeanization (see chapter 3) and Wildavsky's cultural theory of budgeting (chapter 2).

Based on the theory on Europeanization, I would expect the Netherlands to find a routine in the existing repertoire to cope with the new challenges the EMU brings. I do not expect this to be an overnight change, but rather one that develops either through experiential learning or competitive selection. The overall level of adoption will depend on the 'goodness of fit'. The Netherlands being a commitment state, I expect any successful compliance with EMU rules in to come from a focus on multi-year plans and rules to enforce fiscal discipline.

By defining the ongoing Europeanization (or 'EMU-ization') as a shift in group/grid, it should be possible to predict in which direction the budgetary policy of the Netherlands may develop, based on Wildavsky's cultural theory. I will do this in chapter 7 based on a comparison of Dutch and European budgetary developments in the wake of the EMU. Ideally, I would not only be looking at Dutch budgeting, but at the budgeting practises of more, or even all EMU member states, and try to detect a converging trend in a multiple case design. As it is, constricted in time and resources, I limited myself to the Dutch government, but this one case may be seen as a pilot study and thereby a critical test on the applicability of Wildavsky's theory.

1.4.1 Methods data collection

I collected the data needed to answer my research questions by looking at three sources of evidence: documentation and literature, interviews and participant-observation. These multiple sources of evidence were used to achieve methodological triangulation, a prerequisite for the validity of each qualitative study (Yin, 1994, pp. 90-94), as each source of evidence has its strengths but also its weaknesses which the researcher has to take into account (Hakvoort, 1995, pp. 131-132).

Data was first of all collected by extensively studying the various academic texts already available on budgeting and the EMU. These provided me with the foundation for my own research.

Also various documents were studied. Documentary evidence concerns all sorts of written sources, such as administrative documents and formal studies (Hakvoort, 1995, pp. 144-149; Yin, 1994, pp. 81-83). The strengths of this source of evidence are that it is 1) stable, 2) unobtrusive, 3) exact and 4) allows for broad coverage (Yin, 1994, p. 80). In other words, documentary evidence can be reviewed repeatedly, has not been influenced as a result of the case study, contains exact information and covers a long span of time. Using documents as sources of evidence has its weaknesses too, however (ibid.). Retrievability can be low, the selection of and the views expressed in the documents can be biased and access to documents may deliberately be locked.

Semi-structured interviews with key informants were used as another source of evidence (Hakvoort, 1995, pp. 134-138; Yin, 1994, pp. 84-86). The strength of this approach is that interviews are targeted (focussing directly on the case study topic) and insightful (as they provide perceived causal inferences) (Yin, 1994, p. 80). However, I was very well aware that interviews as sources for evidence also have their weaknesses (Yin, 1994, p. 80). There is a possibility of bias (response bias as well as bias due to poorly constructed questions), inaccuracies due to poor recall and reflexivity when the interviewee tells the interviewer what he expects she wants to hear.

A third source of evidence used in this study, were participant observations (Hakvoort, 1995, pp. 139-144; Yin, 1994, pp. 87-89). Their strengths are that they cover events in real time, cover the contexts of events, and are insightful in interpersonal behaviour and motives (Yin, 1994, p. 80). Their weaknesses concern the fact that participant observations are time-consuming, selective (not everything can be observed), possibly influenced by the attendance of the researcher and ask quite an investment of time and effort (Yin, 1994, p. 80).

In order to answer the first two of my sub questions, *Which developments in European co-operation can have (had) implications for budgeting*? and *Which changes in the Dutch national budgetary policy have been made*?, analysis of written sources were chosen as the most appropriate method for data collection. There are a great number of publications on the development of the co-operation in Europe in the European Community, European Union and Economic and Monetary Union by a wide array of scholarly authors as well as official documents by the EU itself, such as the different treaties and resolutions, and reports.

The changes in the Dutch budgetary policy are well documented too, but in this case the Dutch national government is the main source of information. The annual Budget Memoranda (*Miljoenennota*) always details the budgetary system that was used, and usually devotes a chapter to budgeting rules when significant changes were made that year.

Sub question three, *Which factors have contributed to these changes in the Dutch national budgetary policy*?, goes beyond merely describing facts, events and the likes. This question explores the reasons why certain changes were made. Still, researching written sources can provide a large part of the information necessary. In some cases, the before mentioned chapters of the Budget Memoranda will give insight into why certain changes in the budgetary system were made.

Changes in the budgetary policy are often made on the advice of the *Studiegroep Begrotingsruimte* (Study Group on the Budget Margin), which has top officials from several ministries as its members, as well as the head of the *Centraal Plan Bureau* (Central Planning Bureau) and the president of the Central Bank. Their advice is well substantiated, so even if the Annual Budget Memorandum is not clear on why a change has been made, the *Studiegroep Begrotingsruimte* can give a more thorough explanation, which makes its reports an important source. Also, because this study group also has members from outside the government, they may go some way in providing a less biased view than if I were relying on government sources alone.

Besides document analysis of these written sources, expert interviews have been very important for answering this sub-question. In determining why decisions have been made, and in distinguishing between the different factors that have been of influence at different points in time, the knowledge of the people involved in the process will always exceed the knowledge to be found in written sources. For instance, official reports say nothing about the negotiation process that preceded them, or the proposals that were not adopted.

Experts can also point out relevant (sections in) written sources, that may not seem significant to the untrained eye, or that only become significant when compared across several annual editions of the same document. In this way, expert interviews are vital to document analysis as well. I was therefore lucky to be granted an internship at the Section for Budgetary Policy of the Ministry for Finance’s Budgetary Affairs directorate from March to July, 2001. There I was not only able to get close-up view on how a budget is made, but also speak to the key players involved, both in official, semi-structured interviews, and casual chats over lunch or by the coffee machine. See appendix A1 for a list of interviewees.

However, I quickly learnt that the old adage "where you stand depends on where you sit" is also true in the context of budgeting. Recollections of events, and especially of reasons why certain decisions were taken, differed wildly between interviewees. This prompted me to put less emphasis on interviews, and more on document analysis. Whatever people's own personal truths may be, in the end all that counts is the officially sanctioned truth, as laid down in official documents. This gives a more simplified version of events, but one that is accessible within the constraints of this research project.

1.4.2 Data Analysis

There are broadly two strategies for analysing case study evidence: (1) relying on theoretical propositions, and (2) developing a case description (Yin, 1994, pp. 103-6). The first strategy entails following the theoretical propositions about causal relations that led to the case study. The second requires developing a descriptive framework for organising the case study.

In this study, I follow the first strategy by looking at the collected data using Europeanization theory and Wildavsky's cultural theory of budgeting. Europeanization theory predicts the Netherlands to find a routine in the existing repertoire to cope with the new challenges the EMU brings. The overall level of adoption will depend on the 'goodness of fit', and changes will occur gradually, through experiential learning or competitive selection. Since the Netherlands is a commitment type of state, any successful compliance with EMU rules is most likely with a focus on multi-year plans and rules to enforce fiscal discipline.

Wildavsky's model predicts different budgeting strategies for different regimes, and a change in budgeting following changes of group and grid (the composition of a certain group and the rules it chooses to live by). Or, to put it differently, a change in political culture will result in other ways of budgeting. The proposition I make is that adding a European layer to the institutional framework around budgeting, is such a substantial change and that it is therefore—following Wildavsky's theory—likely that new budgeting strategies will ensue.

I will approach the changes made in Dutch budgeting during the years before and after joining the EMU, following a pattern-matching logic, which "*compares an empirically based pattern with a predicted one*" (Yin, 1994, pp. 106-10). In other words, I will try to establish in how far the changes made in Dutch budgeting correspond to those Europeanization and Wildavsky's theoretical model predict.

I have decided to limit my research to the changes in budgeting that occurred during the 1990s, as this was the decennium when not only the decision was made to create EMU (in the treaty of Maastricht, 1992) but also when it was implemented, a mere seven years later. The years of focus range from 1993 to 2004: six 'convergence' years between the Maastricht Treaty and the start of Stage Three (1993 to 1998), followed by six 'stability' years during the Third Stage of EMU (1999 to 2004).

First, I will look for reasons for change in budgetary policy given by the Dutch government itself, first in a general quantitative analysis (by counting how often EMU related keywords are used), then a more detailed qualitative analysis. In official documents issued by both the Dutch government and its advisory bodies, a number of different reasons are mentioned for change, including the ambition to qualify for EMU membership, and once qualified, to comply with the Stability and Growth Pact. Of course these are not the only reasons given for budgetary change; other major influences include rising interest payments taking up an ever growing portion of the budget, and preparing for the impact of an ageing population. I will see if any of the predictions resulting from Europeanization theory ring true.

Then, I intend to look specifically at the three aspects of budgeting Wildavsky used in his cultural theory of budgeting: the form of the budget, the budgetary base, and the norms for the budget. Wildavsky links different strategies on each of these three points to different regimes, or political cultures (Wildavsky, 1986). I will try to position the Dutch government's policy throughout the years on these three points, and establish in how far shifts in position have taken place on each aspect separately. Taking all three aspects together, I will try to determine in how far a pattern can be detected, and thus if Wildavsky's theory is useful for explaining such changes.

1.4.3 Stages of research

In conducting the research needed to write this thesis, I have followed the following phases:

Phase 1: Data collection

I collected most of my written sources during my internship at the Ministry of Finance. These consist of both the official, and thus published documents, as well as internal, sometimes highly confidential, memos and reports. Of course I am not at liberty to quote from the latter category, but those have helped my very much to form a clear picture of the budgeting process itself, and policy making regarding budgeting.

Besides these written sources I collected a lot of information in the form of meetings and informal talks, during which I made as many notes as possible on the topics that are relevant to this thesis. Being surrounded by people who work with budgeting ever day has given me great insight in the day-to-day reality of the process.

Phase 2: Writing drafts

Based on the information I gathered, both the written sources and the notes I made based on meetings and conversations, I started writing down draft versions of my empirical chapters. Parts of these are chronological reflections of events, in which only the emphasis on one fact over the other is a result of the insights described above. Other parts go into more depth on certain policy issues, as well as decision making processes.

Phase 3: Discussing drafts

During more formal, structured interviews with experts, I discussed these conceptual chapters and adapted them where needed. Besides asking these experts if they agreed with he points I made, I of course also inquired about relevant topics that I may have left out. Thus starting a new cycle of collecting data, writing draft versions and discussing these.

Phase 4: Linking Theory and Practice

After having completed the empirical chapters, this information was linked to the theory using the framework for analysis as described above, thus forming the concluding part.

1.5 Structure of this thesis

After this first introductory chapter, there are seven more chapters to follow. First, two theoretical chapters will look at budgeting theory and cultural theory, and Europeanization, which together will form the framework for analysis. The thesis then progresses to the empirical part: the two boxes in the diagram above—the development of the Economic and Monetary Union and the budgeting institutions of the Dutch national government—have a chapter dedicated each.

The final chapters comprise Analysis and Conclusions. In the analytical chapter, the connections between the changes in budgeting and the development of the EMU explored (the arrows from the diagram), thereby answering my research questions. The final concluding chapter will discuss the implications of my findings, and evaluate the research process.

2. Budgetary & Cultural Theory

2.1 Introduction

In the opening chapter, I already made a case for budgeting as a political process. But that is not necessarily so: in his essay *BUDGETING AS AN ADMINISTRATIVE PROCESS* (1980a), Allen Schick sketches a history of budgeting, marked by the conflicting pursuits of administration and politics. This chapter first describes budgeting as a political process. It then goes on to define key concepts and thereby establish a vocabulary which can be used to depict any governmental budgetary process in universally understood terms, away from any country-specific jargon.

The second part of this chapter covers Aaron Wildavsky's attempts to not only describe budgetary processes, but also to understand (and predict) which circumstances lead to which budgetary practices. In the upcoming chapters I will use these models to try to explain changes in Dutch budgetary policy as a result of the changing circumstances resulting from European influences.

2.2 Budgeting as a political process

It was not until the Budget and Accounting Act of 1921 that the American federal government acquired its first formal budget system (Schick, 1980a, p. 1). Before that time, the government was small and its expenditure varied so little from one year to the next that this process was handled by clerks. It was not until the government expanded that the budget changed hands from the administrative to the political. With regard to the distinction Woodrow Wilson makes between administration and politics (1887), Schick writes,

> *If politics and administration proceeded on distinct courses, which path did budgeting follow in the early years? The question is both simple and fundamental, for the dichotomy was grounded on the recognition that the two fields had irreconcilable values. Administration was guided but the pursuit of efficiency; politics by the distributions of power. Inevitably, therefore, if budgeting embraces one of these value systems, it should have been compelled to reject the other.* (Schick, 1980a, p. 6)

However, the expansion of government also brought the end to this dichotomy: *“The New Deal did much more than merely expand the scope of government. It gave rise to pluralist values, with politics defined in terms of private interests.”* (Schick, 1980a, p. 7)

In his article *THE LACK OF A BUDGETARY THEORY* (1940), V.O. Key famously writes, *“On what basis shall it be decided to allocate x dollars to activity A instead of activity B.”* (Key, 1940, p. 1138) The administration answer to that question would be whichever activity maximizes the efficiency for the government, and provide the best value for money. Key concludes that this is impossible: the benefits of government activities cannot all be measured on the same scale, and therefore cannot be compared in an independent, neutral way: *“The most advantageous utilization of public funds resolves itself into a* *matter of value preferences between ends lacking a common denominator. As such, the question is a problem in political philosophy."* (Key, 1940, p. 1143)

Key also raises another issue: *"The thousands of little decisions made in budgetary agencies grow by accretion into formidable budgetary documents which from their sheer mass are apt often to overwhelm those with the power of final decision."* (Key, 1940, p. 1144)

With his influential *THE POLITICS OF THE BUDGETARY PROCESS* (1964)[1], Aaron Wildavsky takes a firm stand on the political side of the debate, and argues that the budgeting process—and thus any budget reforms—are not neutral: the way budgets are made, its institutions, in part determine the budgetary outcomes. Wildavsky emphasises the political character of budgetary processes and the roles of the different actors involved.

He uses a very broad perspective in describing the history of budgeting in the United States. He does not use one specific theory as point of view like, for example, Buchanan uses a Keynesian perspective on budgeting in *DEMOCRACY IN DEFICIT* (Buchanan & Wagner, 1977). Wildavsky concentrates on the interaction between the different actors that are involved in the budgetary process. He discusses the different roles that, for example, the president and congress play, and the corresponding strategies. According to Wildavsky, budgeting is an incremental process, as a complete budget is too vast for anyone to grasp, and too controversial to debate as a whole.

In his *THE FEDERAL BUDGET: POLITICS, POLICY, PROCESS*, (2000) Allen Schick sums up the relation between politics and administration as follows:

> *It would be facile to conclude that there are two worlds of budgeting—the political world in which conflict is pervasive and policy change is substantial and ambitious, and the procedural world in which order prevails and is tempered and incremental. In reality, politics is as much a part of the world of budget resolution as it is of budget dispute. Similarly, rules and procedures inhabit the world of budgetary conflict as well as the world of budgetary peace.* (Schick, 2000, p. 5)

2.3 Key concepts

In order to be able to understand budgetary processes around the world, it is necessary to have a vocabulary to describe them in terms that are free of local colour. In this section I will try to depict the most important terms as used in the work of the main scholars in the field of budgeting.

First of all, the most basic of concepts: **budgeting** itself. *"Budgeting is translating financial resources into human purposes,"* Wildavsky writes (1986, p. 7). Resources are limited, but human desires are not, which means a budget is source of conflict, with the finished, approved budget as the collection of outcomes of these conflicts.

Budgets are both a record of the past, and a statement about the future. They are plans as well as predictions, and once enacted, a budget becomes a precedent—after all once something has been done once, it is likely to be done again.

2.3.1 Incrementalism

Previous budgets as precedents touches on one of the central concepts of Wildavsky's understanding of budgetary processes: the concept of **incrementalism**. Looking back on the first edition of *'THE NEW POLITICS'*, in which the concept was first introduced in relation

[1] Below I will discuss the successor to the 1964 '*POLITICS*': *THE NEW POLITICS OF THE BUDGETARY PROCESS* (2nd edition, 1992).

to budgeting, he writes, *"My major purpose in introducing this term to budgeting was to make readers aware that comprehensive consideration of the budget as a whole, each item compared to all the others, went beyond the possibilities of human calculation. Were it tried, comprehensive calculation would also make agreement on the budget much more difficult."* (Wildavsky, 1992, p. xv)

Budgets are extraordinarily complicated, making it as good as impossible to compare each and every programme with all its possible alternatives every time (cf. Key, 1940, p. 1144, as cited above). Aside from their overwhelming number, differences between alternatives are often highly technical, as well as interconnected with one another. On top of the choices there need to be made between alternative modes of executing the same programme, there's also the (even more) value-laden problem of which programmes to favour to the detriment of which others (eg, whether to spend more on education or defence, aside from the question whether to spend defence money on troops or fighter jets).

In order to deal with this seemingly impossible complexity, aids to calculation are used, the most important of which is the incremental approach (Wildavsky, 1986, p. 10). Budgets are almost never actively reviewed as a whole. Instead, this year's budget is based on last year's budget, with special attention given to a narrow band of increases and decreases.

Schick criticizes the concept of incrementalism as a truism that has little use:

> *But what is this incrementalism that is celebrated in THE POLITICS OF THE BUDGETARY PROCESS? As a statement of fact, it is neither significant nor useful. [...] To say that budgeting is incremental is merely to say that it is no different than all the organized processes familiar to human beings.* (Schick, 1980b, p. 9)

According to Schick, incrementalism should be understood as a normative rule of politics: it is a political choice to avoid conflict (Schick, 1980b, p. 10). Incrementalism has become institutionalized in many rich countries. Instead of investing in more advanced and complex modes of calculation, rich governments have embraced the incremental approach, often making it part of their formal budgetary procedures (Wildavsky, 1986, pp. 270-1). Schick argues that this approach is responsible for runaway budgets, that only provide calm as long as the economy and thus the increments grow, and chaos during times of economic slowdown:

> *If governments were no longer assured of bountiful increments, their budget makers would face unpleasant alternatives, either to freeze the prevailing distributions in the budget or to satisfy new claimants by taking from others. Either way, incrementalism's promise of low-conflict budgeting would be threatened, and along with it, the comfortable myth that the budget produced by the political process is the right one regardless of what it happens to be.* (Schick, 1980b, p. 10)

The part of the budget that is not considered, but rather based on previous decisions, is the **base**. Or, to put it more accurately, the base represents *"commonly held expectations among participants in budgeting that programs will be carried out at close to the going level of expenditures"* (Wildavsky, 1986, p. 11). Past decisions are cemented in the base, making budgeters' lives easier by avoiding raking up past disputes. New programmes are much more difficult to get funding for than existing programs, because once the battle for funds has been fought and won, the expenditure becomes part of the base.

With commonly held ideas about the base, often come commonly held ideas about a programme's or department's **fair share**:

> *'Fair share' means not only the base an agency has established but also the expectations that it will receive some portion of the funds, if any which are to be increased over or decreased below the base of the various governmental agencies.* (Wildavsky, 1986, p. 79)

Consensus on base and fair share is a powerful stabilizer of the budgetary process. Without a base, calculations spin out of control. Everything is up in the air, and so there is everything left to fight for. An agency requesting 50 % over its base may seem greedy under normal circumstances (ie, this would seem more than its fair share), but without a base, the sky is the limit, and treasury departments have nothing to gauge needs by.

Because of these stabilizing influences, governments who have difficulty maintaining the base face a very chaotic and turbulent budgeting process. In rich Western countries, such problems often occurred due to the **scissor crisis.** As demands grew year-on-year, and often could not be reduced (often because expensive programmes such as welfare benefits were funded not through the form of appropriations budgeting, but rather via **treasury budgeting**: automatic disbursement of funds through the treasury (Wildavsky, 1986, p. 324)), nor could enough revenue be raised to meet them (Wildavsky, 1986, p. 255).

In such cases, budgeters will be more concerned with finding resources to pay for existing programmes than expenditure, a type of budgeting called **revenue budgeting** (Wildavsky, 1986, p. 223). In even worse cases of budgetary stress, a government may even fall into **repetitive budgeting**, ie, not approving a budget once a year, but revising it over and over again throughout the year (Wildavsky, 1986, pp. 157-180, 223, 250-251).

2.3.2 Roles, bargaining

Bargaining and negotiating within the government is a key element of the budgeting process according to Wildavsky. This type of conceptual model of government processes closely resembles Graham Allison's so-called third model: that of Governmental Politics (Allison & Zelikow, 1999).

Different actors within the government assume different roles. These roles (that is, "*the expectations of behaviour attached to institutional positions*"), are part of the division of labour, and as such are an aid to calculation, comparable to the incremental approach in that they make the complicated task of budgeting a little more manageable (Wildavsky, 1986, pp. 11-12).

Administrative agencies (ministries, etc.) act as **advocates** of increased expenditure (seeking funding for their programmes), while central control organs (typically within a ministry of finance or similar financial department) function as **guardians** of the treasury. Together they play a **mixed motives game**: they conflict, and yet must cooperate to reach their ultimate go of an approved budget (Wildavsky, 1986, p. 13).

Staying with the language of game theory for a moment, the nature of the game changes according to the circumstances. If the overall size of the budget is yet to be decided, as is the case for most national budgetary processes, the players play a **variable-sum game**, where not only the division of funds is to be decided, but also the overall size of the pot.

If, in contrast, options for raising more revenue are limited, or if spending limits dictate the overall size of the budget, as is the case for many local governments, the game changes into a **constant-sum game**, where one advocate's gain directly translates into another's loss (Wildavsky, 1986, p. 201). Although such a game is more prone to conflict, Wildavsky notes that "*without pressure for revenues providing an overall spending limit, [..] the incentive to gain information for action would, if it existed at all, have been much weaker*" (Wildavsky, 1986, p. 206).

A typical strategy players in such games adopt to arrive at a meaningful budget, is to ask for more than they think they'll get, and then decide to cut each demand by a percentage so the total sum comes within an acceptable limit. Meaningful budgets depend on both trust and being able to be calculated. If it's impossible for either advocates or guardians to calculate how much money is available, or how much is needed, the budget loses its meaning because one would find out later in the year that appropriations were either to low (so agencies run out of money before the end of the year and need emergency stopgaps) or too high (so agencies are either left with excess funds, or the treasury needs to reclaim some of the money). Both cases will lead to a deterioration of trust: guardians will control expenditure much stricter, making sure 'their' money does not go to waste, while advocates will use evasive action, becoming more protective of 'their' money.

Besides trust and the ability to be calculated, a meaningful budget also needs general agreement on its overall size. If the views on how high spending should be differ wildly, the different actors are much less likely to take one another's situation into consideration. Here, the players of the constant sum game have one less thing to worry about compared to those in the variable sum game: their overall budget size is dictated by outside sources. (Wildavsky, 1986, p. 13).

2.4 Budgetary reform

The traditional **line-item budget** dates back to the 19th century, and is still the most common method of expenditure budgeting (Wildavsky, 1986, p. 337). The budget consists of a number of lines with sums attached, where each line contains a separate item specifying the object of the proposed spending. The line-item budget does not focus on programmes or policies (Wildavsky, 1986, p. 183).

From the 1970s on, in order to cope with budgetary stress, many governments have tried alternatives to the traditional model of incremental line-item budgeting, often in the shape of progressive management tools such as **programming planning and budgeting systems** (PPBS), and **zero-based budgeting** (ZBB).

> *Let us think of PPB as embodying horizontal comprehensiveness-comparing alternative expenditure packages to decide which of them best contributes to larger programmatic objectives. ZBB, by contrast, might be thought of as manifesting vertical comprehensiveness: every year alternative expenditures from base zero are considered for all governmental activities or objectives treated as discrete entities. Briefly stated, PPB compares programs, ZBB compares alternative funding.* (Wildavsky, 1986, p. 320)

2.4.1 Programming Planning and Budgeting Systems

PPBS, the most well-known version of Program Budgeting, emphasises policy analysis to increase effectiveness. Programmes are evaluated and replaced by better alternatives whenever possible. The programmes are regarded as alternative expenditure packages (Wildavsky, 1992, p. 436) and therefore can be horizontally compared to one another, as opposed to line-item budgeting where programmes are not presented as expenditure packages, but where the different elements are aggregated separately. While the strength of PPB lies in its emphasis on policy analysis to increase effectiveness, the way in which programmes are compared is the main weakness of PPBS: instead of correcting faults in an ineffective programme, the entire programme is replaced. *"If an error is to be altered,"* Wildavsky writes (1986, p. 320), *"it must be relatively easy to correct. But PPB makes it difficult."*

Of course this would not fit in the incremental model, on the contrary, it stimulates ad-hoc policy. Wildavsky was clearly not a fan of PPBS, having written such articles as "Rescuing policy analysis from PPBS", in which he explains why the routines of budgeting should not be allowed to drive analysis.

And he is not alone in this critique: Schick writes that PPBS *"died of multiple causes, any of which was sufficient"* (Schick, 1973, p. 148; cited in: Hilton & Joyce, 2007). PPB was an attempt to take budgeting out of the grasp of politics again, and place it back in the hands of the administrators. *"PPB implies that each participant will behave as a sort of Budgetary Man, a counterpart of the classical Economic Man and Simon's Administrative Man,"* he writes, *"Budgetary Man, whatever his station or role in the budget process, is assumed to be guided by an unwavering commitment to the rule of efficiency; in every instance he chooses that alternative that optimizes the allocation of public resources."*(Schick, 1966, p. 64)

2.4.2 Zero-based budgeting

Zero-based budgeting (ZBB) does away with the budgetary base, and subjects all proposed expenditure to the same tough scrutiny normally reserved for new programmes only (Wildavsky, 1986, p. 203). With that, the past—recorded in the base—is explicitly rejected (Wildavsky, 1986, p. 322).

Because the past is 'forgotten' each year, there is a larger chance to make mistakes, and a smaller chance to correct them. Nothing is ever settled, so *"[b]oth calculations and conflict increase exponentially*" (Wildavsky, 1986, p. 322). This, in turn, breeds mistrust and thus unwillingness to admit and correct errors.

At first glance, ZBB seems the complete opposite of incrementalism, but Schick writes:

> *While it seems to threaten organizations by examining budgets from a zero-base, ZBB actually builds incrementalism into the budget process. The changes made via ZBB are those recommended by program managers in their budget submissions, not those dictated by external considerations.* (Schick, 1980a, p. 12)

Therefore, Schick and Hatry (1982) refer to ZBB as 'the managers' budget': this type of budgeting relies on the recommendations of managers of individual programmes, and not so much on external considerations.

Though some governments have experimented with ZBB, it is not practised anywhere in its pure form. *"Only poor countries come close to ZBB,"* Wildavsky writes (1986, p. 323), *"not because they wish to do so, but because their uncertain financial position continually forces them to go back on old commitments."*

2.4.3 Performance Budgeting

After these failed attempts, there is a new type of budgetary reform that has gained worldwide popularity in the late 1990s:

> *The reform that presently has most widespread currency worldwide is an effort designed to increase government effectiveness by introducing more information on actual performance into decisions on allocation of public resources.* (Hilton & Joyce, 2007, p. 247)

This trend of **performance budgeting** can be seen as part of the wider trend of performance management (see de Bruijn, 2002), or broader still, New Public Management (or NPM; see Osborne & Gaebler, 1992).

The switch from cash-based systems to accrual budgeting (eg, see Kok, 2007; eg, see OECD, 1997; van Nispen & Posseth, 2007) is part of the same trend: in order to be able to assess performance of a programme, one must know its costs in any given year rather than which payments have been made. Christopher Pollitt and Geert Bouckaert (2001, pp. 69-70) include both in the same reform trajectory:

Budget Status	Routes
Input-oriented line item budget	1: Germany/Belgium
A: Include some performance information	2: France/EU/Italy
A + B: change format and content and add other documents	3: USA
A + B + C: adapt procedures and timing	4: Netherlands/Canada/Sweden/Finland
A + B + C + D: adapt method of charging (accrual basis)	5: UK/Australia/New Zealand

Figure 2.1 Budget Trajectories (Pollitt & Bouckaert, 2004, p. 70)

Although performance information is designed to aid decision making by providing more information, it is not always successful in making choices easier. Dirk-Jan Kraan (2008) warns against an information overload, which will only muddle things rather than enhance transparency.

2.5 Budgeting as a cultural process

Whatever the *game*, whatever the parameters, and whatever the budgetary system used, actors will always have some discretion. The choices they make is in part dependant on the culture in which they operate. Or, to put it more accurately,

> *Making decisions depends on calculating which alternatives to consider and to choose. Calculation involves determining how problems are identified, broken down into manageable dimensions, and related to one another; calculations include choices as to what is relevant and who shall be taken into account. There is, therefore, a cultural component of calculation.* (Wildavsky, 1986, p. 10).

In *BUDGETING: A COMPARATIVE THEORY OF BUDGETARY PROCESSES* (1986), cultural theory takes a central role. *"Why is Budgeting, whatever it is, the way it is?"* Wildavsky asks (1986, p. 7). What are the differences between the budgetary processes of US cities, states and the federal government, and between the United Kingdom, France, Japan and the United States, rich and poor countries, and moreover, why do these differences exist? Why do these governments solve similar problems in such different ways?

First, Wildavsky identifies the similarities. Some parts of budgeting stay the same, no matter where or under what circumstances budgeters need to do their work. In every process, there is a division of roles in advocates and guardians. Those in charge of government programmes will always want to see it be the best it can be, and thus guard it against spending cuts and seek increases wherever possible. The guardians of the treasury on the other hand are charged with trying to match income with expenditure, and will therefore trim expenses as much as possible.

Another universal characteristic of budgeting is that its complexity is overwhelming. It is beyond human capabilities to grasp, let alone weigh, all required decisions. All budgeters adopt aids to calculation to simplify their task. By accepting previous decisions in the form of the base, one can concentrate on only the newly proposed increments. In this, rich governments have it far easier than the poor: wealth acts as a cushion, providing some padding against the sudden onset of meagre times, and thus improving predictability (Wildavsky, 1986, p. 15).

2.5.1 Size, Wealth, Predictability and Political Culture

Wealth and predictability, together with size and political culture, are the most important sources of differences in budgeting. Size determines the importance of increments: 0.1% of a mid-sized city's budget may be enough to set up a small office, but

0.1% of the federal budget will fund a substantial programme. The decisions that need to be made to spend 0.1% multiply manifold with such an increase of scale.

Wealth and predictability together determine the level of incrementalism. A combination of wealth (that is, the ability to mobilize sufficient funds) and certainty (ie, the ability to control the flow of revenue and expenditure) results in a system of incremental budgeting. Previous commitments are honoured, and budgeters can focus their attention on the increments.

The degree of incremental change varies with the type of budgetary process (Wildavsky, 1986, p. 16), and the budgetary process that is deployed is in turn dependent on the degree of wealth and predictability. Using those to variables to draw a fourfold table, Wildavsky classifies the different budgetary processes as follows:

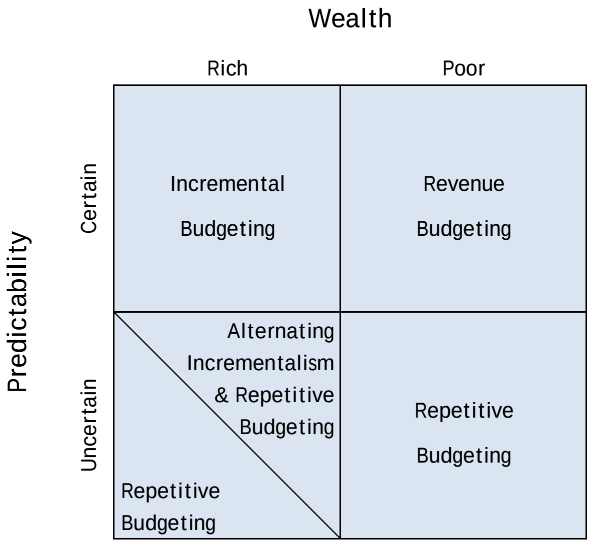

Figure 2.2 Five Budgetary Processes (Wildavsky, 1986, p. 24)

US cities are poor but certain and thus inhabit the top right-hand box. Their budgeting behaviour is mainly focussed on revenue: as they are required to balance their budgets, the amount of money they are able to raise directly translates into the amount of money they can spend.

Countries that are poor also tend to be uncertain. This instability leads to repetitive budgeting: the budget is remade over and over again throughout the year, as funds become available and run out again. *"Poor countries do not know where they are now, and the budget does not help them learn where they will be next year,"* Wildavsky writes (1986, p. 17).

Although wealth creates something of a buffer against uncertainty, in turbulent times rich countries can also experience repetitive budgeting, either alternating with incrementalism (when circumstances permit) during periods of political instability (Wildavsky quotes the practise of voting twelfths, or one month's worth of funds, during the Third and Fourth French Republics), or even a constant state of repetitive budgeting in the case of certain combinations of political cultures.

2.5.2 Political Culture

While poverty homogenizes behaviour (Wildavsky, 1986, p. 17), the rich countries included in the comparison (UK, US, France and Japan), all fall in the same box of rich and certain nations that budget incrementally. And yet there are remarkable differences between them that this model does not explain. To account for the diversity in this group, Wildavsky now turns to the final source of differences in budgeting practices: political culture.

Here, he uses Mary Douglas' grid-group typology (Douglas, 1982), originally a anthropological model, but extended by Thompson, Ellis and Wildavsky (1990) to cover political cultures. In the original model, group and grid are the two dimensions of sociality, which together capture the variability of an individual's involvement in social life.

> Group *refers to the extent to which an individual is incorporated into bounded units. The greater the incorporation, the more individual choice is subject to group determination.* Grid *denotes the degree to which an individual's life is circumscribed by externally imposed prescriptions. The more binding and extensive the scope of the prescriptions, the less of life that is open to individual negotiation.* (Douglas as cited Thompson et al., 1990)

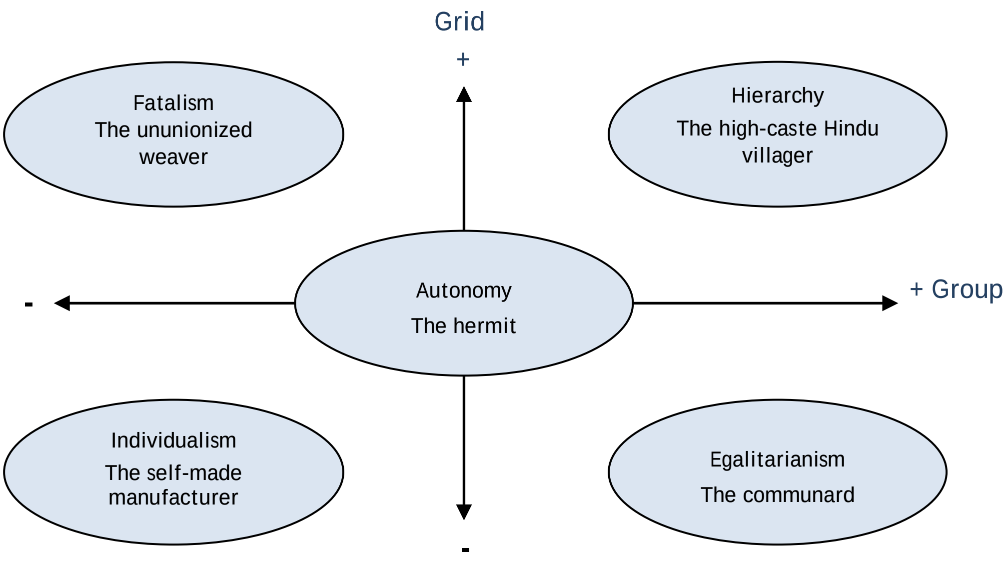

Figure 2.3 The five vignettes mapped onto the two dimensions of sociality (Thompson et al., 1990, p. 8)

These two dimensions together create a number of different types of social relations. A combination of strong group boundaries and weak prescriptions results in social relations that are *egalitarian*, such as might be found in a self-sufficient Western commune. Because of the low grid, there is little defining a member's role in the group, no one who has power over others, and as a result, it is difficult to resolve conflicts in any other way than expulsion from the group. Low grid and low group, on the other hand, lead to an *individualistic* social context. Individualists (a self-made manufacturer would be a typical example) set their own rules, but may well have control over others.

When both group boundaries and binding prescriptions are strong, the social relations are *hierarchical*. A high-caste Hindu villager might find himself in such a situation: roles within the group are clearly defined, everybody knows his place. Individual autonomy is restricted, just like in *fatalistic* social relations (an ununionized weaver is introduced as an illustration), but unlike hierarchists, fatalist are not included in the group setting these restrictions.

A fifth possible way of life arises when the individual withdraws from social involvement, refusing both to control others and to be controlled, living like a hermit in complete *autonomy*.

From these social relations, it is a small step to political cultures. In fact Thompson et al argue that *"classic works in political culture [...] uncover a variety of political cultures within each country and that these variations correspond to our five ways of life"* (1990, p. 220). Rather than one national culture, they stress that every nation contains a diversity of ways of life.

Indeed, Wildavsky writes that *"[n]ot one of these cultures is viable on its own. No culture is sufficient unto itself"* (1986, p. 333). In practise, we see only combinations of regimes.

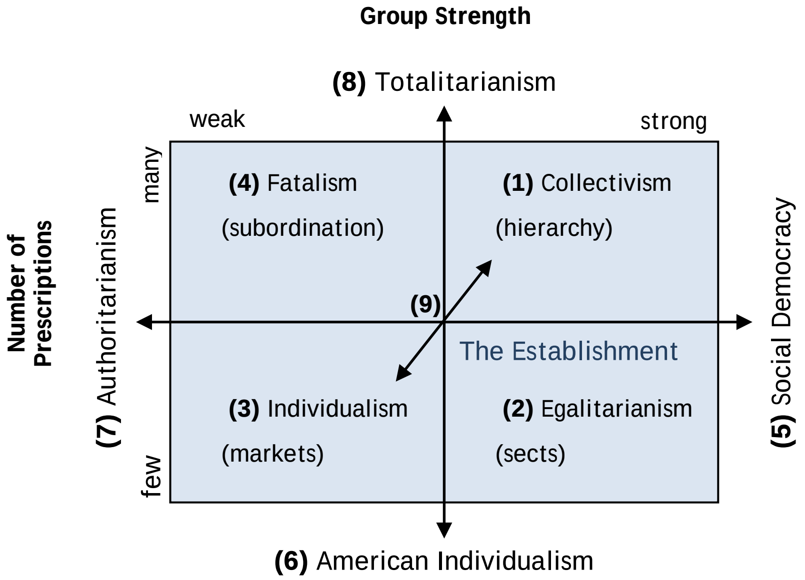

Figure 2.4 Nine Models of Political Cultures and Their Corresponding Regimes (Wildavsky, 1986, p. 335)

These hybrid regimes are the modern social democracy (5; a combination of hierarchy and sect), the American individualism in the Jackson era of the 1930s (6; a combination of market and sect), Authoritarianism (7; a combination of fatalism and market) and Totalitarianism (8; a combination of fatalism and hierarchy). Wildavsky's ninth political culture is what he calls *the Establishment*, a combination of 1, hierarchy and 3, markets:

> *A common combination among democratic, that is competitive governments, so common it has the colloquial name 'The Establishment', is the alliance of hierarchies and markets.* (Wildavsky, 1986, p. 334)

Besides these hybrids of two regimes, Wildavsky mentions the possibility of combining three or four regimes. Even though these kinds of complex combinations are not common historically, there is one form of cultural pluralism that is dominant in current day Western democracies: a combination of the primary regimes hierarchy, markets and sects.

According to Wildavsky, the budgeting system and especially the response to fiscal stress like a deficit or debt, depends on the country's political regime. After having outlined this cultural theory, Wildavsky applies it to three aspects of budgeting: the form of the budget, the budgetary base and the proclivities towards balancing or unbalancing budgets (Wildavsky, 1986, p. 337).

Form of the budget

Wildavsky outlines a number of different kinds of budgets and connects these to the ideal type political regimes. Line-item budgeting, in which every line contains one item with the corresponding sum, fits perfectly in the budgetary form of hierarchical political regimes.

> *Currently the main criticism to line-item budgeting is that the items are related to organizational needs, such as operations, maintenance, and personnel, rather than to the broad purposes the spending is supposed to serve. But this is to confuse hierarchies with markets. Line–item budgeting is the form par excellence of the hierarchy. The more lines there are and the finer the differentiation among them, the better they mirror the division of labor within the bureaucracy and, by extension, the roles and statuses the regime is trying to maintain.* (Wildavsky, 1986, p. 337)

The different forms of program budgeting, when expenditures are not listed per item but as a package for each policy programme as well as listing the programme's performance, focus on competition and are thus related to market regimes.

> *The costs and benefits of alternative programs are presented, and, ideally, the most effective arrangements in terms of return are chosen. It is not the mix of resources that matters—any combination is acceptable—but only effectiveness. Resources have no intrinsic merit but only instrumental value—the rate of return. It is no secret, indeed this is its avowed rationale, that program budgeting is based on economic models embodying market processes. Program budgeting is part of the rationale for society of competitive individualism whose political manifestation is in a market regime.* (Wildavsky, 1986, p. 338)

The final form of budgeting Wildavsky describes here is the zero-base budgeting (see also section 2.4.2). Each budget is drawn up from scratch, so there are no long running programmes with more or less fixed expenditures for the next couple of years. This is the ideal form of budgeting for sect regimes because it increases equality and does not have much set rules. ZBB also has a number of downsides:

> *True, the zero-base budget originated in a few corporations and it does seem to speak only results, as if only production relationships mattered. But it is uneconomical in that it ignores transaction costs. By foregoing the past agreements embodied in the base, zero-based budgeting generates more conflict and requires more calculation that it can manage. Hence, it has fallen into disuse in corporations and most governments, emerging now and again as a stick with which to try to beat down existing authority.* (Wildavsky, 1986, p. 338)

Budgetary Base

> *If a budget both reflects and justifies a social order, as I contend, then its boundaries should guard that order. This is the significance of the budgetary base, the largest part of the budget, the bulk of which is protected from serious scrutiny: therefore, it remains unchallenged. Inside the base, except for small additions and subtractions, all is protected; outside the base, everything is up for grabs. On the stability of the budgetary base, therefore, rest the stability of the political pillars of society. An across-the-board attack on the budgetary base is equivalent to a revolution.* (Wildavsky, 1986, p. 339)

Wildavsky thinks of the budgetary base as a very important part and essential in characterising a system of budgeting from a political cultural perspective. The base is a manifestation of social order. In cultures with no social order like the fatalistic regimes there is no base at all. The culture is fatalistic: people take what comes, with no regard to either past of future. There are no boundaries to maintain, in fact there is no budgeting process at all since there is no sense of time besides the presence, and no revenue or expenditure.

In market regimes on the other hand, all transactions are permissible. This makes the budgetary form formless since the base shifts with each new bargain even if the total public expenditure does not change much. Competition rules out much of the base.

> *Programs compete and winners attract more discretionary resources. The budgetary process is extremely flexible; there are only a few general categories of spending, among which transfers are readily arranged; new combinations are continuously being devised and discarded. Budgeting in market regimes is like riding a roller coaster—fun is you stay on, awful if you fall off.* (Wildavsky, 1986, p. 340)

Sect regimes do not have a base either, but for an entirely different reason. Not the result of the budget (post audit) is significant, like in the market regime where economic growth and efficiency control the budget, but the promises and right intend (pre audit) are of importance.

The most prominent base appears in hierarchical regimes:

> *Hierarchy is the home of the budgetary base. Interaction in society establishes a base that is as well defined as its social structure. There ought to be and there are categories corresponding to a hierarchically organised list of priorities for spending.* (Wildavsky, 1986, p. 340)

This, however, results in an extremely rigid system, in which a complete lack of alterations slows down the economy and creates conflicts.

Norms for the budget: Deficit, Balance or Surplus

When Wildavsky wrote this article, the majority of Western countries had a constant and substantial deficit. Even though some theories regard a deficit as a way of steering the economy or redistribution of income, there is a general agreement these kinds of substantial deficits are unwise because some countries have difficulties borrowing money, and the interest payments rise as a result of which they now form a significant part of most budgets. The strategies (if any) depend on the kind of political culture.

Wildavsky distinguishes between five possible strategies:

1. Do nothing
2. Decrease spending
3. Increase revenues
4. Increase revenues and increase spending
5. Decrease revenues and decrease spending

These strategies are then linked to the political regimes: fatalistic regimes would not take action at all (1), sects cannot manage their revenue so they must cut back spending (2). Hierarchical regimes have the opposite problem and will thus try to maximise revenue (3) whereas market regimes, who have control over both their revenues and their spending, will try to decrease both.

These different strategies result in different budgetary balances. Only a true fatalistic regime will have a balanced budget, since spending equal to revenue is imposed from above. The other main regimes will all run deficits, of various sizes. The sect will have a huge deficit since expenditures are high and revenues are low. Both hierarchical and market regimes have small deficits, but there is a big difference between the expenditure and revenue of the two regimes. Market regimes try to minimise their government expenditure and revenue, whereas hierarchy based regimes have a much more dominant government, with the budget to match.

The budgetary strategies of the different regimes can be summed up in the following table:

Regime: **Fatalism** Fatalists cannot manage expenditure or revenue. Strategy: **(1)** Do nothing Balance: Spending equals revenue from imposition from above	Regime: **Hierarchy** Can manage revenues but not expenditures Strategy: **(3)** Maximize revenue Balance: Spending marginally exceeds revenue with both at high levels
Regime: **Market** Can manage both expenditure and revenue at low levels Strategy: **(5)** Minimize expenditure and revenue Balance: Deficit varies at low levels	Regime: **Sect** Can manage expenditure but not revenue. Strategy: **(2)** Redistribute resources at high levels of expenditure and low levels of revenue. Balance: High expenditure greatly exceeds low revenue.

Figure 2.5 Budgetary Strategies under Political Regimes (Wildavsky, 1986, p. 344)

In the next chapters, I will use this model to try to explain the changes in Dutch budgetary practices as a result of European influences. After all, if *"ways of life involve choices about with whom to live (the boundaries of one's Group) and the degree of restrictions on one's transactions (what [Wildavsky] calls Grid)"* (White, 2001, p. xvii), then one might expect both have shifted when the European Union acquired such a large stake in Dutch policy making.

3. European Integration Theory: Europeanization

3.1 Introduction

In order to qualify for the EMU and subsequently comply with the Stability and Growth Pact, many Member States will have to make changes to their national policy process. Such changes are widely referred to as ‘Europeanization’.

In this chapter I will offer a brief overview of the relevant theory in this field. I shall first discuss Europeanization in general, which turns out to mean different things to different people (section 3.2). Then I move on from what happens to how it happens, and to ways Europeanization can be understood (section 3.3). And finally I zoom in on the specific effects of the Economic and Monetary Union, or ‘EMU-ization’ (section 3.4).

3.2 Objects of Study

Europeanization may be a popular term, but, according to Johan P. Olsen (2002, p. 921) *“its usefulness may be more limited than its widespread use could indicate”*. He writes,

> *’Europeanization’ is a fashionable but contested concept. The term is used in a number of ways to describe a variety of phenomena and processes of change. No shared definition has emerged and definitions are often delimited to a specific article or book chapter* (Börzel, 1999, p. 574; Bulmer & Burch, 2001, p. 75; Checkel, 2001, p. 180)*. Because ‘Europeanization’ has no single precise or stable meaning, it has been argued that the term is so unwieldy that it is futile to use it as an organizing concept* (Kassim, 2000, p. 238). (Olsen, 2002, p. 921)

‘Europeanization’ is used to describe a change, but just what is changing differs as different authors use the term. Lacking a shared definition, Olsen lists five possible uses (Olsen, 2002, pp. 923-4):

1. *Europeanization as changes in external boundaries:* As the European Union expands to incorporate more countries, these new Member States are subject to this type of ‘Europeanization’.
2. *Europeanization as developing institutions at the European Level:* this ‘centre-building’ version of Europeanization focuses on the creation and development of formal-legal institutions of governance.
3. *Europeanization as central penetration of national systems of governance:* this type of Europeanization implies the shifting division of powers and responsibilities between different levels of government, and adapting national and sub-national institutions to European norms.
4. *Europeanization as exporting forms of political organization:* focuses on relations with non-European actors as forms of political organization and governance are exported beyond Europe’s borders.
5. *Europeanization as a political unification project:* this final concept of Europeanization incorporates all of the above, and relates to the degree in which Europe is becoming a more unified and stronger political entity. Though Olsen notes

that there is not necessarily a positive correlation between the four previous types of Europeanization, or between each of them and a politically stronger Europe (Olsen, 2002, p. 924).

Featherstone (2003, pp. 5-13) compiles a similar typography, which, in his own words, parallels Olsen's. Moving from the issue of *what* changes to *how* this change takes place proves even less straightforward. Both authors point out cause and effect in the 'Europeanization' process can be deceptive, and that 'Europeanization' does not easily fit in the language of dependent and independent variables (Dyson & Featherstone, 2003; Featherstone, 2003, p. 4; Olsen, 1996, p. 271). Olson notes that *"[i]n practice, it has turned out to be difficult to isolate European effects and to disentangle 'net-effects' of European arrangements from global, national and sub-national sources of change"* (Olsen, 2002, p. 937). He cites autonomous central banks and appropriate fiscal behaviour as examples of not solely European, but international trends as *"transnational professions such as economists spread predominant ideas globally"* (Olsen, 2002, p. 937).

Mörth (in her chapter in Featherstone, 2003) uses the concept of the porous state with diffuse borders between internal and external processes to illustrate it is not always clear who is influencing whom: after all, it is the Member States who make the new European rules and norms (Mörth, 2003, p. 160). She reaches the conclusion that *"if Europeanization is a process, it could be difficult to distinguish between the process leading to the formation of a certain policy and the reverberation of that policy in the national arena"* (2003, p. 174). In other words, in Mörth's view it may not be possible to differentiate Olsen's third type of Europeanization (European influence on national institutions) from the second (development of institutions at the European level).

3.3 Analysing Europeanization

In accounting for *how* change takes place, Olsen suggests possible ways of understanding each of his five different changes termed Europeanization. To analyse Europeanization as an adaptive process of changing domestic institutions as a consequence of European ones—the third and most common conception of Europeanization, as well as the main topic of this thesis—, Olsen lists two basic frameworks: experiential learning and competitive selection.

"In experiential learning institutions change on the basis of experiences with, and interpretations of, how relevant actors in the environment respond to alternative forms of domestic organization and governance," Olsen writes (2002, p. 932), whereas *"[i]n models of competitive selection, environmental imperatives are seen as driving the change process, and there is a need to understand mechanism of variation, selection and retention. Institutions and actors are fixed and their survival and growth rates depend on their performance, comparative advantages and how well they 'match' their changing functional and normative environments"* (Olsen, 2002, p. 933).

3.3.1 Finding a routine that fits

These processes are not necessarily perfect and thus adaption is neither precise nor instant. The standard response is often *'to find a routine in the existing repertoire of routines'* (J. G. March & Olsen, 1989, p. 35; cited in: Olsen, 2002, p. 933). The rate of adaption may be inconsistent with the rate of change as institutions search for an adequate response, which accounts for differences in adaptation rates between Member States; a factor referred to by others as '*closeness of fit'* or indeed the *'goodness of fit'* (eg, Dyson, 2002, 2008a, p. 24; eg, Featherstone, 2003, p. 14).

Since European states have different institutional histories, they respond differently to similar European pressures. As a result, no significant convergence has been apparent. Olsen concludes:

> *European-level developments do not dictate specific forms of institutional adaptation but leave considerable discretion to domestic actors and institutions. There are significant impacts, yet the actual ability of the European level to penetrate domestic institutions is not perfect, universal or constant. Adaptation reflects variations in European pressure as well as domestic motivations and abilities to adapt. European signals are interpreted and modified through domestic traditions, institutions, identities and resources in ways that limit the degree of convergence and homogenization.* (Olsen, 2002, p. 936)

3.4 'EMU-ization'

Mörth suggests *'EU-ization'* may be a more relevant term than *'Europeanization'* (Mörth, 2003, p. 159) as it is not so much Europe but rather the EU that is the agent of change. This thesis looks specifically at the impact of the EMU—so perhaps the term to use here should be *'EMU-ization'*.

3.4.1 Ideal Scenarios

Wessels and Linsenmann (2002) divide the EMU into three policy areas: monetary, fiscal, and economic and employment policy. Each policy area has its own mode of governance. Monetary policy has completely shifted to the supranational level, and has become the responsibility of the ECB. For fiscal policy[2] there are rules in place for 'hard' coordination in the form of the Convergence Criteria and the Stability and Growth Pact, with sanctions to enforce compliance. The procedures for employment and macroeconomic policy are rather based on 'soft' coordination: policy is monitored, general policy orientations and 'best practices' provided, but there are no sanctions on non-compliance[3].

For each of these three policy fields of the EMU, Wessels and Linsenmann sketch a 'best' and 'worst' case scenario, varying from perfect compliance to rebellion against the EMU, ultimately leading to reversal of policy integration[4]. In case of fiscal policy the first scenario revolves around compliance with EMU rules, not so necessarily because of the threat of the sanctions, but because the belief in the importance of 'sound finances and money' are shared by all actors. On the supranational level, the focus lies on proper application of the Stability and Growth Pact. Since many of these European actors also operate on the national level (eg, the ministers that make up ECOFIN), they will practice what they preach and submit to the 'hard' coordination rules.

And they will not face much opposition. International financial markets put pressure on both European and national actors to comply with the SGP as non-compliance would lead to a negative perception of the euro, specifically in relation to the US dollar. Political parties, social partners and other interest groups also do not question the sound finances ideas, and will blame governments for being irresponsible if their budget is not 'close to balance or in surplus' (Wessels & Linsenmann, 2002, pp. 67-8).

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[2] Wessels and Linsenman refer to the SGP part of EMU as '*fiscal policy*'. Fiscal policy refers to the use of government expenditure and revenue to influence the economy.

[3] The most the council can do in case of a state deviation from the principles as laid down in the treaty, is to publicize its recommendations (Wessels & Linsenmann, 2002, p. 59).

[4] Work by Amy Verdun (2002, 2008) suggests that in the early-mid 2000s, the Netherlands has made a shift from more closely resembling the first scenario (reflected in her 2002 chapter in *EUROPEAN STATES AND THE EURO*), to a situation more similar to the second scenario (as described in the updated text published as a chapter in *THE EURO AT TEN*).

In the breakdown scenario on the other hand, the ‘hard’ coordination procedures are considered by national actors as being far too demanding. The national debate intensifies as the cost of compliance rises, and the European level is blamed for institutional misfits[5]. The SGP becomes a controversial issue between parties and levels of government, especially when other countries also fail to meet targets in a pan-European economic downturn. National actors that also operate on the European level (ECOFIN, Economic and Finance Committee) will look for loopholes and try to reinterpret or the Stability and Growth Pact. Recommendations and warnings from the European Commission and ECB are ignored and fines left unpaid as Member States reclaim their sovereignty (Wessels & Linsenmann, 2002, pp. 74-5).

3.4.2 Finding a routine that fits: Delegation vs Commitment States

Reality, of course, is never as extreme as these scenarios, nor as clear-cut. Hallerberg and Bridwell (2008) observe that there has been clear convergence and improvement of fiscal performance, while at the same time there is *‘clustered’* divergence. They distinguish between states with a *‘delegation’* form of fiscal governance, and states with *‘contracts’* or *‘commitments’* as their form of fiscal governance.

This distinction was previously observed by Von Hagen, Hallerberg and Strauch (2001; see also 2004) in their reports on the use and effectiveness of fiscal institutions. In states with delegation forms of government, most budgeting is delegated to one central player, typically a strong minister of finance, who writes a multi-annual plan and maintains fiscal discipline. Parliament typically has very little formal power in the budgetary process in this type of state. This form is common in one-party governments, or governments where ideological conflicts are low; eg, the UK and Greece. ‘Commitment’ or ‘contracts’ states lay down their multi-annual fiscal targets in coalition agreements. They rely on rules rather than a strong finance minister to deal with shocks and enforce fiscal discipline. This form of government is typical for coalition governments with higher ideological differences; eg, the Netherlands, Finland.

Besides noting this pattern, Von Hagen, Hallerberg and Strauch (2001) go on to say that while all Member States could have performed better in terms of their budgetary position during 1998-2000, *“states that have rules that differ from expected rules based on whether they are delegation or commitment states tended to perform more poorly than others”* (von Hagen et al., 2001, p. 48): of the delegation states, those with weak finance ministers and strong parliaments performed worst; of the commitment states, the worst performers were those countries with no rules for dealing with shocks. Any institutional reform will have to fit the type of government of a country.

Hallerberg and Bridwell conclude that for the latter group (contracts states) the Stability and Growth Pact has been useful, while it has had no discernable effect on the first group of delegation states (Hallerberg & Bridwell, 2008, p. 85). They also find that *“large states were more likely to have excessive deficits and not to comply with explicit Commission recommendations on changes”* (Hallerberg & Bridwell, 2008, pp. 85-6). However, compared to the period before the start of Stage 3 of the EMU, all states show greater fiscal discipline, but the reason for this should be sought in the existing domestic institutions rather than European pressure. Similarly to Olsen’s view on institutions’ search

[5] Dyson (2002, p. 25) points out the presence of the opposite line of reasoning: instead of blaming the EU for the Member State’s inability of unwillingness to comply, the EU is cited as the reason why politicians are ‘forced to’ press on with unpopular policies. He writes, *“the discourse of EMU has its own significance in constructing a logic of inevitability, independent of its material effects. The discourse of his is evident in the strategic use of EMU as legitimization for unpopular domestic policy decisions and as part of a deliberate attempt to create a 'crisis consciousness' as a means of impressing on the public the importance of reforms.”*

for an adequate response from an existing repertoire and Featherstone and Dyson's goodness of fit (see above), Hallerberg and Bridwell state that EU regulations only have impact when there are fitting domestic institutions they can reinforce.

4. Economic and Monetary Union

4.1 Introduction

As illustrated in the introductory chapter, the European Union leaves an ever greater imprint on our daily lives. In chapter 1 I cited the rates you pay when phoning home from your European holiday destination, the currency in which you settle the bill, and having the option of making your holiday destination your permanent place of residence as some examples of effect of European policy on the lives of those living in the European Union. Arguably, 'the currency in which you settle the bill' is the most visible and significant way in which the lives of most Europeans have changed. The Economic and Monetary Union (EMU) is arguably both the most ambitious and most successful policy of the European Union (EU) (McNamara, 2005, pp. 141-142).

But of course European citizens and businesses are not the only ones to experience changes due to European influences. The national governments of the Member States have seen a lot of changes to their 'daily lives' too. Many laws and regulations are now made on a European level, rather than in the national parliaments. And also on the policy fields where national sovereignty is maintained, 'Europe' is often a factor that needs to be taken into account. This impact that joining and being a member of the European Union has on Member States, is a field of study (amongst others, see section 3.2) referred to as 'Europeanization'.

In this chapter I shall first outline the events that lead up to the creation of the Economic and Monetary Union (section 4.2), its main characteristics (4.3), and the development of the Stability and Growth Pact (4.4).

4.2 The road to Economic and Monetary Union

As Kenneth Dyson notes in his *European States and The Euro*, the history of the EMU does not begin with the start of Stage Three in 1999 (2002, p. v). Although the decision to form the Economic and Monetary Union was not made until 1992 with the Treaty on European Union, the idea is much older than that. It predates the Maastricht Treaty by several decades, and it was certainly no overnight success (McNamara, 2005, p. 143). The following section draws a brief outline of the process leading up to the birth of the EMU, and its development to date[6].

In the late 1960s, when turbulent markets resulted in devaluation of key currencies, European states were looking for new ways of creating exchange rate stability. Stability in exchange rates was seen as an important prerequisite for stimulating international trade, as uncertainty over prices might scare off buyers and sellers. Besides improving trade relations, stable currency exchange rates would also benefit the administration and financing of the common agricultural policy (CAP) (McNamara, 2005, p. 143). And last but

[6] For a more complete time line, see Appendix A2.

not least, a single currency was seen by much of Europe's political elite as the ultimate way of binding Europe together (McNamara, 2005, p. 142).

The 1969 Barre Plan (European Commission, 1969) introduced the idea of greater economic and monetary cooperation within the (newly merged) European Community. The political leaders of the Community's members first committed to economic and monetary union at the summit in The Hague later that same year. The resulting Werner Report (1970) included a timetable for the EC to reach monetary union in three stages within a decade, but was otherwise vague on the institutional layout needed to reach this goal (McNamara, 2005, p. 145). Although the plan was approved by the national leaders of the EC, it was never implemented, as just as its first stage—the narrowing of currency fluctuation margins—got underway, the Bretton Woods system of exchange rates finally collapsed, causing much turbulence on currency markets.

A fresh start was made in 1972 with the launch of the 'snake in the tunnel' exchange rate system, where currencies fluctuated within a set margin against the dollar (the 'tunnel'). But the oil crisis, weak dollar and differences in economic policy meant only Germany, the Benelux countries and (at times) Denmark could hang on (European Union, 2008).

The next attempt at monetary stability followed in 1979, with the creation of the European Monetary System (EMS) in which all Member States, save the United Kingdom, participated. This system did away with the link to the dollar and instead linked the currencies to the new European Currency Unit (ecu), a weighted average of the participating currencies (Tsoukalis, 2000, p. 153).

During the 1980s, the EMS proved to be more successful than its predecessors, sparking renewed ambitions for an economic and monetary union. The Delors Report (1989) proposed a three-staged process to economic and monetary union, and emphasized the importance of greater coordination of economic policies, rules on budget deficits and the formation of a new, independent institution responsible for monetary policy (European Union, 2008).

While the Werner Plan focused on both economic and monetary integration, it did not address the independence of central banks. The Delors report introduced the independent European central bank as centre of the EMU's institutional design. Both reports represent the time in which they were written: at the time of the Werner Report, Keynesian economics were still en vogue, while the Delors Report was written in the context of monetarist stability-oriented policies (Dyson, 2008b, pp. 400-1).

After the Delors Report, the pace of movement towards Economic and Monetary Union picked up considerably. The report formed the basis for the subsequent Treaty of European Union, which was adopted at the Maastricht European Council in December 1991.

4.3 Treaty on European Union (TEU)

The Treaty on European Union set a timetable to reach economic and monetary union by the end of the century. This would happen in three stages (see Italianer, 1993, p. 52; European Union, 2008; Overturf, 1997, pp. 107-109):

Stage 1

The first stage began on 1 July 1990, and had thus already begun by the time the Maastricht Treaty was signed. During this stage, the Council was to assess the progress each of the Member States made on economic and monetary convergence, while Member

States made provisions to meet the prohibitions that would come into force in Stage 2, as well as start with the process of establishing independence for the national banks.

Stage 2

The second stage started on January 1, 1994, as specified by the treaty. At this point, the European Monetary Institute (EMI) was established, which would facilitate the transfer to the European Central Bank that would take over in stage 3.

Capital movements to or from third countries were liberalised, while direct access to central banks and privileged access to financial institutions for the financing of public deficits became prohibited. The 'no bail-out' rule for Member States came into effect, as well as the (as of yet non-binding) procedure to avoid excessive public deficits.

At this stage, the Member States needed to work towards complying with the convergence criteria (see box on next page), as the progression onto Stage 3 depended on how many Member States met the criteria.

Stage 3

In the TEU, there was no fixed start date set for Stage 3. The third stage was to start in 1997 if the majority of the Member States fulfilled the convergence criteria by then. However, if no decision to move on to Stage 3 was reached by the end of that year, the third stage would start on 1 January 1999, with however many Member States complied with the convergence criteria. In practise, the third stage started on 1 January 1999, with eleven of the then fifteen Member States[7] set to adopt the euro, even if not all met the conditions.

Convergence Criteria (TEU)

- price stability, measured according to the rate of inflation in the three best performing Member States;
- long-term interest rates close to the rates in the countries with the best inflation results;
- an annual budget deficit which does not exceed 3 per cent of GDP;
- total government debt not in excess of 60 per cent of GDP, or falling steadily towards that figure;
- stability in the exchange rate of the national currency on exchange markets, demonstrated by participation in the exchange-rate mechanism of the European Monetary System for two years.

(Protocol to Art. 109j TEU; now Art. 121 TEC, cited in McNamara, 2005, p. 147)

With the start of the third stage, the exchange rates were irrevocably fixed. Stage Three saw the birth of the independent European Central Bank (ECB). The ECB together with the Member States' central banks form the European System of Central Banks (ESCB), which would conduct the single monetary policy from then on. Its tasks are to ensure price stability, define and implement monetary policy[8], conduct foreign-exchange operations, hold and manage official foreign reserves of the Member States, and to promote the

[7] These are: Belgium, Germany, Ireland, Spain, France, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland. Exceptions from the –then– 15 EU Member States are Denmark and the UK, which had negotiated an opt-out clause and derogation states Sweden and Greece. The latter group, which did not yet meet the convergence criteria in May 1998, do not have voting rights. Greece joined in January 2001: in time to introduce euro coins and banknotes with the first eleven (McNamara, 2005, p. 147). See, besides Figures 4.2 and 4.3, also appendix A3 for debt and deficit statistics of these countries.

[8] Formally, the formulating of monetary policy is the task of the ECB alone, but for the implementation it is dependent on the national central banks of the ESCB (McNamara, 2005, p. 149).

smooth operation of the payment system (Jovanović, 2005, p. 123; McNamara, 2005, p. 149).

January 1, 1999 also saw the birth of the euro, although for the first three years it existed as a virtual currency only, used in banking but not as coins and banknotes. These physical forms of the euro appeared on January 1, 2002, fully replacing the currency of twelve Member States (the eleven that qualified in May 1998, plus Greece, having joined the third stage a year earlier) one month later.

Figure 4.1 EU countries and their currency status (Source: The Economist, 2009)

Since that original introduction of the euro, the European Union has grown to include more Member States. These are obliged to adopt the euro as soon as they meet the convergence criteria. So far, Slovenia adopted the euro on January 1, 2007, and was joined by Cyprus and Malta a year later (Mulhearn, 2008, p. 61). In 2009, Slovakia became the latest country to adopt the euro (see Figure 4.1).

4.4 From Convergence Criteria to the Stability and Growth Pact

During the negotiations that would result in the Maastricht Treaty, the German Bundesbank, backed up by the German government, took a stance for strong Convergence Criteria, as it feared inflation if the participating economies were not adequately prepared. Countries with a reputation for strict economic policies agreed with the Germans, while the others were anxious to show that they too could follow this path (McNamara, 2005, p. 145; Overturf, 1997, p. 109).

The criteria that were finally agreed upon have been criticized for measuring either the wrong indicator, being unnecessary or even having adverse effects (Overturf, 1997, pp.

109-113). Buiter, Corsetti and Roubini (1992) warn that the criteria will do more harm than good as countries are forced into taking drastic measures: *"Their implementation would require an excessive degree of fiscal retrenchment which would adversely affect the level of economic activity"* (Buiter et al., 1992).

But if anything, complying with the Convergence Criteria showed the Member States' willingness to make sacrifices for the single currency project. Overturf writes *"at least in the minds of many, many of the questions regarding the exact criteria chosen are beside the point, which was the ability of the criteria to evidence commitment to the final stage of EMU and what that entailed in terms of foregoing monetary policy as a macroeconomic tool."* (Overturf, 1997, p. 113).

In the end, the criteria were rather *soft*: the final verdict on whether or not a country qualified was open to discussion. It was up to the Council to decide whether or not "*the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace*" (Treaty on European Union, 1992, p. 27), and so on.

4.4.1 Stability and Growth Pact

During the early 1990s, directly after the Maastricht Treaty was signed, Europe experienced a monetary crisis. Newly unified Germany experienced a boom of such proportions that by July 1992, German interest rates had reached a record high of 8.75% ("A tortuous path," 2009). While the European currencies[9] were pegged together in the exchange-rate mechanism (ERM), they were effectively all linked to the D-Mark. When the German economy—the system's centre—took such a different course from the economies of the other countries, many had to either take drastic measures to hang on, or drop out of the ERM.

Fear that a similar crisis would threaten the single market spurred especially German policy makers to ensure strict discipline. In order to make sure Member States did not merely drop their budget deficit temporarily to qualify for the final stage of the EMU, only to let it rise again after qualifying (but now against more favourable interest rates, thanks to more prudent European neighbours), the European Council adopted the Stability and Growth Pact (SGP) in 1997, again on insistence of the German government (Overturf, 1997, p. 131)[10]. The Germans, reluctant to part with their strong Mark, insisted the value of the euro was permanently guaranteed by capping the government deficits of the participating countries (Gerbet, n.d.).

The German Minister of Finance, Theo Waigel, proposed the government deficit of participating countries should not exceed 1% of GDP, with automatic sanctions coming into play as soon as that value was exceeded. However, this was seen as too strict by many of the other nations, and the compromise reached at the June 1996 Florence European Council set the bar at 3% of GDP, a threshold that could only be breached in exceptional and temporary circumstances, while the medium term aim should be on budgetary balance. Agreement on the sanctions was reached in December of that same year, at the Dublin European Council (this was also where the factor 'Growth' entered the Pact), and the Stability and Growth pact was endorsed by the European Council in Amsterdam in July 2007.

The Pact has a preventative and a corrective arm (Mulhearn, 2008, pp. 101-102). According to the preventative side of the SGP, Member States are required to keep to the

[9] At the time, all 12 EU Member States, save Greece, were part of the ERM.

[10] The German government actually proposed a 'Stability Pact'; it is thanks to the French there is a 'Stability *and Growth* Pact' (Overturf, 1997, pp. 130-132; Padoa-Schioppa, 2004, p. 200; Harden, 1999, p. 78)

"*medium term objective of budgetary positions of close to balance or in surplus*" (Council of the European Union, 1997). 'Close to balance or in surplus' is meant to ensure sustainable budgetary outcomes, while focusing on the medium term allows for the flexibility to cope with (cyclical) economic setbacks. The Member States have to submit an annual stability programme to the Commission and Council; the Council examines and monitors these, and taking in the Commission's recommendations, issues early warning system alert where necessary.

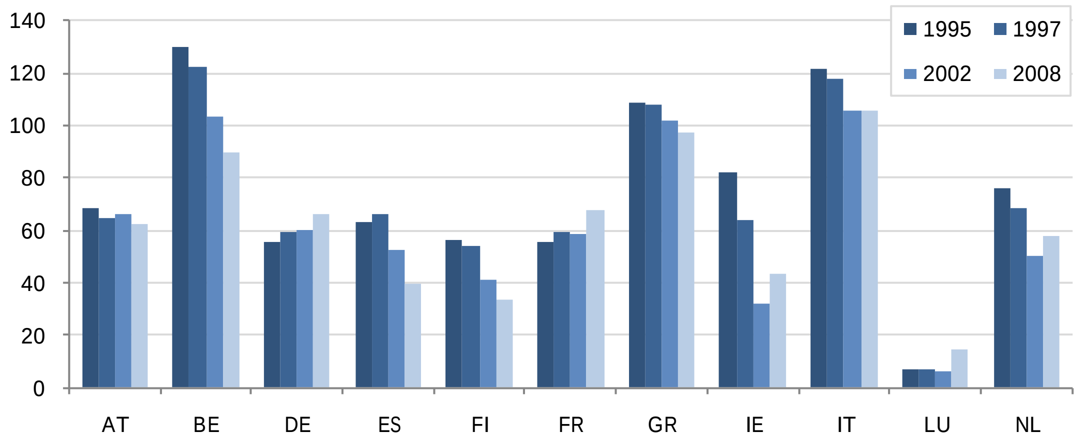

Figure 4.2 EMU Debt (Source: Eurostat, 2009)

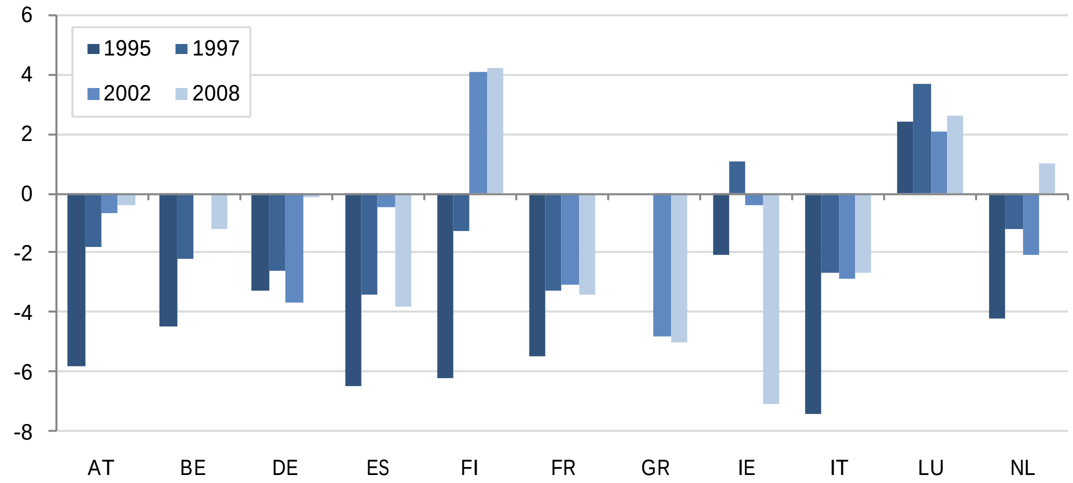

Figure 4.3 EMU Balance (Source: Eurostat, 2009)

The corrective arm of the SGP sets in when a country exceeds either the deficit limit of 3% of GDP (and when this excess is not '*exceptional*' or '*temporary*'), or when the government's debt is higher than 60% of GDP (and not '*sufficiently diminishing and approaching the reference value at a satisfactory pace*'). Exceptional circumstances are either an unusual event outside the control of the Member State, or a severe economic downturn.

If a country breaches the Pact outside of exceptional circumstances, it will be required to correct this situation. If it fails to do so, it will be subject to sanctions and penalties, ranging from being forced to set aside funds in non-interest-bearing deposits to non-reimbursable fines.

4.4.2 Reform of the Stability and Growth Pact

Like the Convergence Criteria before it, the Stability and Growth Pact has been much criticized. Critics point at the SGP for either focusing on the wrong things, not taking country specific circumstances into account, setting the bar for what constitutes a 'severe' economic downturn too high, and even having perverse effects as countries are forced to cut spending and raise taxes at the wrong stage in the cycle (Mulhearn, 2008, pp. 103-104).

While some criticized the Pact for being too strict, others pointed out that it is "*only a very blunt and rigid instrument for policy-making*" (McNamara, 2005, p. 155). The Pact still leaves an amount of wiggle room, and the decision to fine a country that is already in economic trouble is no small step. The Economic and Financial Affairs Council (ECOFIN) may exercise discretion on imposing sanctions, and in November 2003 indeed decided to reject the Commission's recommendation to sanction Portugal, Italy and Germany.

This rejection prompted a rethink about the SGP, resulting in a modified set of rules that were adopted by the European Council in 2005 (McNamara, 2005, p. 156; Mulhearn, 2008, pp. 104-6). The revised Pact still uses 3% and 60% of GDP as limits for deficit and debt, but includes a wider range of factors to justify missing these targets. A period of negative annual growth is now considered a 'severe economic downturn', while in the original Pact, growth had to be at least -2% in order for the circumstances to be exceptional.

Not only the corrective, but also the preventative arm of the SGP has been adapted. The medium-term objectives—before 'close to balance or in surplus' for *all* countries—now differ between countries. These country-specific medium-term objectives give Member States the option to deviate from the general targets to undertake major structural reform.

5. Budgeting of the Dutch national government

5.1 Introduction

In this chapter I will explore the changes made in the way the Dutch government budgets, before and after the birth of the EMU. This chapter gives a mostly factual account of events, and mainly focuses on the institutions involved in budgeting. It lays out which changes have been made, but does not analyse *why* these changes have taken place. The 'why' will be addressed in chapter 7, which focuses on analysing data.

This chapter first provides an overview of the annual budget cycle (section 5.2), before it moves on to discuss the budgetary practices of subsequent Dutch governments (section 5.3).

5.2 The Annual Budgetary Cycle: an outline

The budgetary cycle is an important part of the budgetary system. At the same time, it is a part that cannot be changed easily. Therefore the budgetary cycle provides a framework within which the budgeting policy and the budgetary system can be reshaped, with limited options to change the framework itself. That is not to say it is impossible: as part of the policy accounting efforts commonly referred to by the Dutch acronym VBTB[11], a new date was added to the budgeting calendar (see section 5.2.4).

The prominent steps in the budgetary cycle are mandated by the *Comptabiliteitswet* (Government Accounts Act). The current act of 2001 replaced the *Comptabiliteitswet* of 1976, which had been extensively amended through the years, lastly because of the VBTB programme (Koopmans, Wellink, de Kam, & Woltjer, 1997, p. 68; Algemene Rekenkamer, 2002).

In this section I will outline the cycle of the Dutch national budget (Ministerie van Financiën, 2001a, 2009a; Koopmans et al., 1997; Bestebreur, 1997). Even though the budget itself only covers one year, starting January 1st, the total budgetary cycle takes much longer. Between the time the first preparations start and the moment the final account is approved, lies a period of three years. So at any point time, there are three budgetary cycles in progress simultaneously, be it in different stages.

The budgetary cycle can be divided into four stages: first the preparation resulting in a preliminary budget (5.2.1). This budget is amended and passed by Parliament (5.2.2), then the implementation takes place during the budget year itself (5.2.3), followed by the evaluation by checking the budget when the year has ended, and making up the final balance sheet (5.2.4). Please note that there is a calendar showing the main events of the budgetary cycle in Appendix A4.

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[11] VBTB is the Dutch acronym of the title of the document that introduced the programme: *Van Beleidsbegroting Tot Beleidsverantwoording*, or From Policy Budget to Accounting for Policy (Ministerie van Financiën, 1999a).

5.2.1 Preparation stage

The first phase in the Dutch budgetary cycle is that of preparation. Since the power of the purse lies mainly by the government (as opposed to Parliament), the government is the main actor in this preparation phase.

During this phase, the financial consequences of all existing programmes for the coming budgetary year are set. This part of the budget is what Wildavsky calls the *base*, and mainly reflects decisions taken in the past that cannot be changed. Taking macro-economic prospects and other developments into account, estimates about the volume and price of these programmes are made, thus calculating the cost. Added to this are the costs of new programmes the government would like to instate. At the end of the road, with the opening of the new parliamentary year on the third Tuesday of September, a budget proposal or *Miljoenennota* is introduced to Parliament. This *Miljoenennota* does not only state expenditures and revenues as proposed by the government, but also an overview of the main policy themes for the coming year, a review of the state of the economy, plans on economic and budgetary policy and financial management. This, however, is by no means the first important document in the budgetary cycle.

The first stages of preparing the budget take place within the Ministry of Finance, and start shortly after the previous budget proposal is issued in September of the year t-2[12]. The Minister of Finance sends a budgetary instruction to the other ministers (the so-called *Begrotingsaanschrijving*), including technical directions, procedures and estimates of inflation and other macro-economic developments that effect government expenditure.

Based on this information, each ministry will start working on a draft proposal of requested funds. Each department within the ministry will come up with their own requests, based on the results of the implementation of the pervious and running budget year. These partial budget proposals are sent to the directorate for Financial and Economic Affairs (FEZ) within each ministry. Normally the sum of these partial budgetary requests will exceed the available budget, and therefore the ministry’s directorate for Financial and Economic Affairs will closely examine these claims, add their comments and send these to the Minister and Junior-Ministers. These political heads of the ministry will decide which priorities are set, and thus which policies they would like to spend more money on, and which to cut back. This results in the *Beleidsbrieven* (Policy letters), which are sent back to the Minister of Finance.

At the Ministry of Finance, these policy letters along with expected windfalls and setbacks[13] on existing budgetary articles, are made into one overview document. A summary of this overview combined with the latest economic indicators provided by the Netherlands Bureau for Economic Policy Analysis (*Centraal Plan Bureau* or CPB) is sent back to all the ministers in the *Kaderbrief* (framework letter or prognosis statement). This document outlines the budgetary possibilities and problem areas, and explores the necessity for cutbacks, the room for increased expenditure or tax relief, or the possibility to improve the budgetary balance.

Besides the central government budget, the *Kaderbrief* also addresses the other two budgetary sectors: social security and healthcare. Based on the CPB figures about economic developments, interest rates, employment and the way the level of wages and

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[12] When describing a point in time within the budgetary cycle, the budget year itself is commonly referred to as “t”, with “t-1” being the year preceding the budgetary year, “t+1” the year after, and so on.

[13] The terms “windfall” and “setback” (*meevaller* and *tegenvaller*) refer to either higher than expected revenue / lower than expected expenditure or lower than expected revenue / higher than expected expenditure respectively, but this clear distinction between the expenditure and revenue side was introduced in 1994 (see section 5.3.3)

prices will develop, estimates are made regarding the expenditure in these budgetary sectors.

At this point in the budgetary cycle (around April of t-1), the Council of Ministers will discuss this *Kaderbrief*. They decide on the global division of funds for the next year. The Minister of Finance sums up these decisions in the *Totalenbrief* (letter of totals), which gives each of the ministries a maximum (or total) for their budget of the following year. The ministries will come up with a first detailed draft of their budget, and the Ministry of Finance[14] will check if it complies with the agreements reached in for instance the coalition agreement or the *Totalenbrief*. Negotiations on these issues will first take place between civil servants of the Ministry of Finance on the one hand and the spending ministry on the other, but if no agreement can be reached, these issues will be taken up by the ministers. The Minister of Finance can decide at this point to propose changes in the *Totalenbrief*, but those will have to be agreed upon in Cabinet.

During the summer months the budgets are worked out in more detail by the ministries themselves. They also write an explanatory memorandum, like with any other bill. At the same time, the Ministry of Finance works on the *Miljoenennota* (Budget Memorandum), which provides and overview of the national and international economic situation, as well as the financial and economic policy for the years to come.

The decision making process regarding the revenue side of the budget takes place in August. For these decisions, the most recent estimates of the main economic indicators from the CPB's *Macro Economische Verkenningen* (Macro Economic Outlook or MEV) are used. Besides the revenue side of the budget, the Council of Ministers also decides on the *Miljoenennota* and the separate budget proposals. These are then sent to the Council of State[15] for advice. Based on this advice, the ministers write a final reaction and the last changes are made before the *Miljoenennota* and *Rijksbegroting* are sent to Parliament.

5.2.2 Discussion in Parliament: amending and passing the budget

The *Miljoenennota* and *Rijksbegroting* are presented to Parliament at the start of the parliamentary year on the third Tuesday in September[16]. This marks the end of the preparation phase of the budgetary cycle and the beginning of the next phase: the amending and passing of the budget by Parliament. The budget proposals are regarded as bills, and therefore more or less the same rules apply as in any other legislative process.

Although the budget is one of the few bills that the government is required by law to introduce, Parliament can come up with its own counter budget. If one of the Parliamentary parties chooses to do so, this will be mainly for political reasons, not because the budget proposed by the government is completely unacceptable.

The debates are started off by the Prime Minister who defends the more general, big picture during the *Algemene Politieke Beschouwingen* (General Political Debate). Later on the Minister of Finance takes over this role when the more detailed *Algemene Financiële Beschouwingen* (General Financial Debate) start.

The separate budgets are regarded as separate bills, and thus discussed separately. During the debates, the Second Chamber[17] can introduce amendments. Even though it is

[14] More specifically the *Inspectie der Rijksfinanciën* (Inspectorate of the Budget or IRF)

[15] *Raad van State*, the most important advisory board in the Netherlands, which has to be consulted before any bill is passed.

[16] Known as *"Prinsjesdag"*

[17] The Dutch Parliament consists of two chambers: the Second Chamber is the more active, powerful chamber whereas the First Chamber is a Senate which reviews all bills passed by the Second Chamber but can only accept or reject them, and does not have the right of amendment.

not required, it is common practise to specify how any extra expenses would be paid for. The debates on each of the budgets are concluded with the votes on the proposed amendments. These amendments are not limited in any way, but in practice they sum up to less than 0.1% of the budget.

These debates on the proposed budget and amendments introduced by MPs continue for the rest of the year, and sometimes even into the next year, the actual budget year. This however does not result in any part of the government shutting down due to lack of money, as is possible in the United States. If the budget is not agreed upon at the start of the budgetary year on January 1st, the government will continue to work under the previous budget, similarly to the situation in Belgium in early 2008, when because of a political crisis, the 2008 budget was not passed until late February 2008 ("Kernkabinet akkoord over begroting in evenwicht," 2008).

After the Second Chamber has passed the budget, the First Chamber will have to approve it as well. Like with any other bill, the First Chamber can only approve or reject the separate budgets, and is not allowed to amend them. When the entire budget is passed by both Chambers, the second phase in the budgetary cycle ends and the third, the implementation stage, can begin.

5.2.3 Implementation Stage

During the course of the budgetary year, the budget of each ministry is closely monitored by their own directorates for Financial and Economic Affairs (FEZ). Every month they send their expenditure account to the Ministry of Finance, where the accounting on an aggregate level is carried out. This way the Minister of Finance can monitor the implementation of the budgets that were agreed upon by both government and Parliament, and can detect overruns early on. What happens in case of overruns is determined by a specific set of rules regarding budgetary discipline as part of the current coalition's budgetary policy, see section 5.3 for details. Any changes in the budgets during the budgetary year are proposed in supplemental budgets, which go through the regular legislative process.

The monthly accounts from the ministries also provide the information for the budgetary memoranda. The first of these is the *Voorjaarsnota* (Spring Memorandum or Spring Financial Report), which is sent to Parliament no later than June 1st. The memorandum informs Parliament about the state of affairs regarding the running budget. It also proposes any changes in the budget the government finds necessary, since reality is always different from the assumptions that were made the year before. These changes are also introduced in supplementary budgets. The Spring Memorandum is the most important report on the budget in progress, because at that time changes can still be made since only less than half the year has passed. The Spring Memorandum is also very influential for the government's decision making on the next budget proposals.

The second budget memorandum that is sent to Parliament as a part of the *Miljoenennota* for the next year. In that, the government not only outlines the plans for the upcoming year, but also discusses the economic situation and preliminary outcomes of running budget[18].

The final important document of the budget year is the *Najaarsnota* (Autumn Memorandum, or Autumn Financial Report) in November or December. It sums up any changes compared to the state of affairs as described in the *Miljoenennota*, and if there

[18] This section of the *Miljoenennota* is called *"Vermoedelijke Uitkomsten"*, expected outcomes.

are any setbacks or windfalls, or any other changes in policy, this will mean supplementary budgets will be introduced, like with the *Voorjaarsnota*.

A Provisional Account (*Voorlopige Rekening*) is sent to Parliament in February of the follow-up year, which provides a global overview of the budgetary outcomes. This ends the implementation phase.

5.2.4 Reporting and evaluation

In the evaluation phase, all changes to the budget that were made during the budgetary year are summed up in a balance sheet and finally the government accounts for this final balance in Parliament. The finances of each ministry are checked by their own accounting office, which are supervised by the Government Audit Directorate (*Directie Accountancy Rijksoverheid* or DAR) of the Ministry of Finance.

The accounting reports are sent to the Ministry of Finance in April, and then assembled for the *Rijksrekening*, the National Account. This is sent to the Netherlands Court of Audit (*Algemene Rekenkamer*), who will issue a report.

The final Annual Financial Report (*Financieel Jaarverslag*) marks the end of the budgetary cycle, and is sent to Parliament on the third Wednesday in May. This Accounting Day is a relative new feature in the budgetary cycle that was introduced as part of the VBTB efforts. The first fully-fledged edition of this day was in 2001. Before, the financial report was issued with the new *Miljoenennota*.

5.3 Dutch Budgetary Policy

The Dutch budgetary policy, ie, the set of rules and agreements made by the cabinet at the start of its term concerning the manner in which the budgets of the national government will be drawn up, has changed considerably over the years. As said in section 1.3.2, when 'budgetary policy' is used in this sense, that is, to mean a set of rules and guidelines rather than the annual interpretation of these rules into practical ends, I understand it as part of the budgetary institutions.

Sometimes these have been the topic of much public debate (as was the case with the *Zalmnorm*), sometimes it was seen as a mostly technical matter. However, in any case the way budgets are made has a crucial influence on the outcomes, and therefore on the government policy as a whole. After all, policy plans can be very interesting, but if there is no money behind it, nothing much will happen.

As I said, at the start of a new cabinet term, the new budgetary rules (or the continuation of existing rules) are decided upon. These are laid down in the coalition agreement and also published in the government's first annual budget.

Many of these new budgetary rules are adapted from the report of the Study Group on the Budget Margin (*Studiegroep Begrotingsruimte*). This study group issues a report on public finance and budgeting before the start of a new government term, advising the new cabinet. The Study Group is an advisory committee of the Dutch Government, in which senior officials of a number of ministries, government institutions and *De Nederlandsche Bank* (Dutch national bank) participate.

This section will provide an overview of the budgetary policy in the Netherlands since the 1960s, starting with a brief overview of policy up to and including the last Lubbers cabinet (1989 - 1994), a more detailed description of budgetary policy during the Kok years (1994 – 2002), and again a more concise account of the budgetary policy practised by the Balkenende cabinets (2002-present).

5.3.1 Brief overview 1961 - 1982

Structural policy based on the personal savings surplus

During the 60s and 70s, a structural fiscal policy was developed in order to secure balanced economic growth. The main norm that was used for budgeting during this period was the long-term savings to investments ratio. The theory behind this so-called *Zijlstra-norm* (named after Minister of Finance Jelle Zijlstra) was that the government deficit, or more accurately, the net amount borrowed by the government[19] (the structural acceptable financial deficit), should equal the net supply of capital, ie, the personal savings surplus, in order to—following a Keynesian view on economics- secure a stable growth of the financial markets and thus of the economy as a whole (Kraan, 2001, p. 50).

To achieve this stability, this budgetary policy was based on a long-term, structural goal. It was linked to the economy by following the trend in the personal savings surplus, but one-off overshoots or undershoots caused by unforeseen, extraordinary items or the effects trade cycle were permitted (Study Group on the Budget Margin, 1989, p. 11).

Besides the factor of economic control by controlling the financial markets, this budgetary norm also has an aspect of financial control to it. Because of the link between the personal spending surplus and the deficit, this implies a set amount of budgetary resources available. This provides a framework within which the government can decide between increasing expenditure or lowering taxes and social charges.

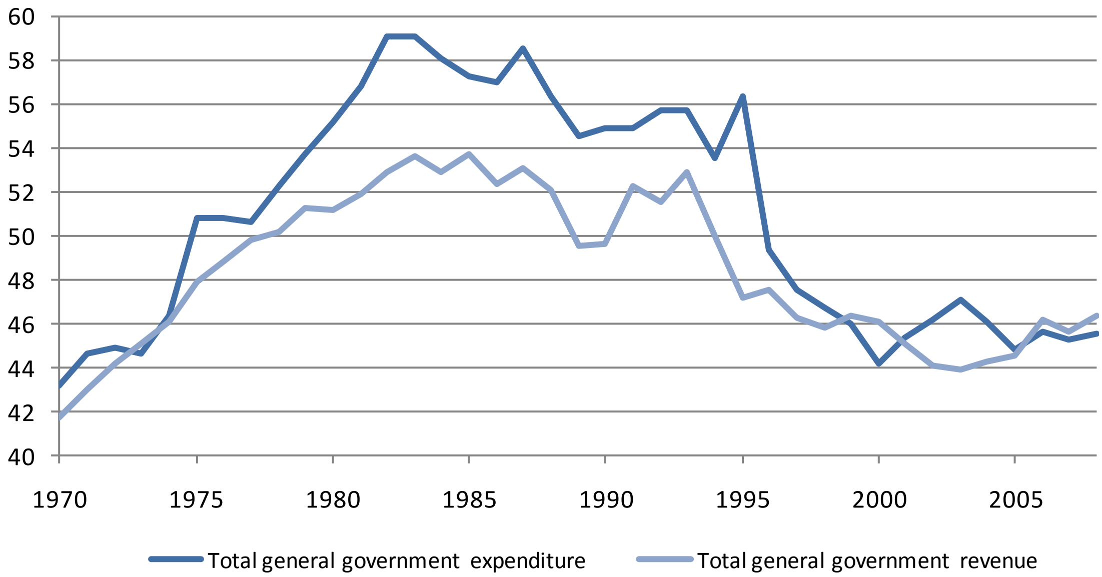

Figure 5.1 Government Expenditure and Revenue as percentage of GDP (Source: Eurostat, 2009)

This system worked well during the period from 1961, when it was first introduced, up to 1973, a period of steady economic growth. However, in 1974 the Dutch economy was hit hard by the oil crises. Expenditure that was first intended as short-term measures turned into permanent increases of public spending in order to actively stimulate the economy.

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[19] A distinction is made between the budget deficit, ie, the difference between expenditure and revenue, and financial deficit, ie, the budget minus redemption on earlier loans. Therefore, the financial deficit equals the borrowing requirement of the central government excluding the new loans to cover redemption, or in other words, the amount with which the national debt will increase that year.

In the 1976 Budget Memorandum, the so-called 1% policy was introduced. This meant the structural increase in the tax and social security burden—including the rise in a number of items of non-tax revenue, such as those from the domestic sales of natural gas—should be no more than 1% a year (Kraan, 2001).

During the second half of the 1970s, the financial deficit rose quickly. By 1979, the Dutch economy was dominated by major imbalances such as high unemployment, as well as high—and rapidly rising—government expenditure and budget deficit. Because of these high deficits and the government's borrowing needs, real interest rates were high and corporate investments fell to an all-time low. Expenditure cuts were introduced in 1978, entitled *Bestek '81 5*, but were—because of political compromises—not far-reaching enough. Frustrated by the unwillingness of the spending ministers to commit to more substantial cuts, Minister of Finance Andriessen resigned in 1980 (Ministerie van Financiën, 2007b, p. 7).

In 1982, when the first Lubbers cabinet took office, the public spending ratio had gone up to 70.6% of the national income (a different indicator than used in the graph above; see Study Group on the Budget Margin, 1989, p. 12). The situation had become so dire, it was referred to as the 'Dutch Disease' (Andeweg, 1993, pp. 187-8). Something had to be done.

5.3.2 1982 - 1994: Cabinet Lubbers I, II, and III

With the new Cabinet in 1982 (CDA-VVD coalition, or Christian Democrats/Liberals), an evaluation of the negative economic situation lead to the decision that serious expenditure cuts had to be made in order to turn the economy around. At this point, unemployment was steadily rising, the national income declining (by 2.5% from 1980-1982), and the budget deficit had reached unprecedented heights (9.5% of national income). Expenditures were rising to cover the social benefits of the unemployed, while the government lost expected tax-based income, and had to pay ever-increasing amounts of interest. With negative forecasts, and faced with these increasing payments of interest, the Cabinet Lubbers I began drastic expenditure cuts in what has been called the "Consolidation Policy" of the 1980s. This marked the official ending of extremely expensive social welfare expenditures of the 1970s, and of the structural acceptable deficit.

The main target of the budgetary policy became reducing the actual financial deficit, taking an annual time-path approach. In order to meet these deficit targets, the first Lubbers Cabinet set the goal of a 21 billion guilder reductions (7.5% of total expenditures) within the four-year Cabinet term (see Studiegroep Begrotingsruimte, 1983). Besides strict expenditure target setting, general changes were also demanded by the Cabinet to occur within the government because the Cabinet did not want to raise the 'public burden' (taxes, social security premiums) more than necessary.

These included improvements in administrative organisation, auditing procedures and civil servant wage cuts. Besides that, changes in the budgeting process were made. A new budgeting accounting system for integrated cash-commitment system was introduced, instead of the old cash-system, and a new rule on 'overshoots', which stated that budget overshoots from a specific ministry had to be compensated then by cuts with that ministry.

As a result of these goals, the target reductions of 21 billion guilders or 7.5% had actually gone over their mark; the actual cuts after the first four years reached 27.9 billion guilders or 9.5% of total expenditure. The internal improvements continued throughout all three of the Lubbers Cabinets, except during the third Cabinet when taxes did indeed have to be raised.

Cabinet Lubbers II, 1986 - 1989 (another CDA-VVD coalition), again decided on a tightening of expenditures. Although the results of the Cabinet Lubbers I were positive in seeing some downward trends, it was not sufficient for a reasonable budget deficit level. Cuts continued, but unexpected external economic problems also arose during this

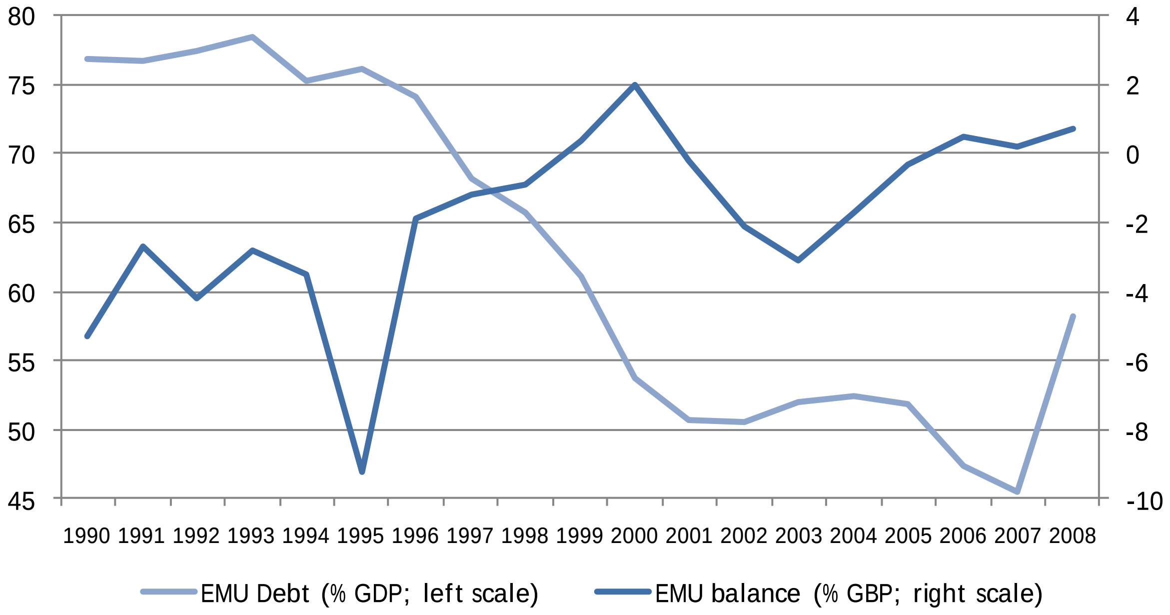

Figure 5.2 EMU Debt and Balance of the Netherlands (Source: Centraal Bureau voor de Statestiek, 2009)

Cabinet-namely the incredible price drop of natural gas (energy prices in general), resulting in a respective drop in revenues (between 1986-1988 a resulting 2.2% decrease in GDP). Despite this, the economic situation as a whole began looking better, even more than had been forecasted. This resulted in an 18 billion guilder unexpected tax-based income, which allowed Lubbers to "loosen the reins" while still achieving the pre-set target of deficit reduction.

Cabinet Lubbers III, 1989-1994 (CDA-PvdA coalition—Christian Democrats/Labour), experienced just the opposite. An unexpected economic showdown at the beginning of the Cabinet period created a 20 billion guilder tax receipt shortage, and extra expenditure cuts had to be made along with a general increase in taxes. Another time path for reducing the deficit was agreed upon. This resulted in severe cut backs in expenditure, while the focus on the deficit led to many ad hoc measures. Generally speaking, the pre-set targets were met, and Cabinet Lubbers III saw expenditure cuts of 25.4 billion guilders or 7.5% of total expenditure at the end of the term. The deficit was significantly down from 1982 and the economy was getting back on its feet.

5.3.3 1994 - 1998, Cabinet Kok I

As the *Purple* Cabinet (PvdA, VVD and D66—Labour/Liberals/Social Liberals) presided by Wim Kok, the former Minister of Finance, took office in 1994, the economic crisis of the 1980s had for the most part subsided. Unemployment, however, remained a major problem. Besides unemployment, the largest challenge of the Cabinet Kok I was meeting the EMU criteria for the 1998 qualification deadline, which would allow the Netherlands into the European Economic and Monetary Union.

With the first budget of the Cabinet Kok I (1995), the new budgeting system that was decided upon in the coalition agreement, was instated (Minister van Financiën, 1995). This trend based budgetary policy with its new, strict rules for budgetary discipline is commonly known as the *Zalmnorm,* named after Gerrit Zalm, the Minister of Finance of both Purple Cabinets as well as the second Balkenende Cabinet, and the former head of the Central Planning Bureau.

The most important characteristics of the trend-based budgetary policy are:
· cautious macro economic assumptions;
· an expenditure maximum;
· rigid rules for budgetary discipline including strict separation of expenditure an income sides of the budget;
· a deficit maximum;
· one main moment of decision (Studiegroep Begrotingsruimte, 1997, p. 17)

Cautious macro economic assumptions

Before the elections, the CPB develops two medium term scenarios, a cautious and a favourable one, which provide the margins within which economic growth is likely to lie within the cabinet period. Of these scenarios the coalition uses the cautious one as the basis for the medium term (four year) framework, which is laid down in the coalition agreement.

By using cautious macro economic assumptions for the budget, the chance of setbacks is much smaller than when, as in the 1960s, optimistic assumptions are used. All estimates are made based on the trend, compensating for conjuncture influences. As long as the deficit of total expenditure remains below the set maximum, there is no need for drastic measures. This creates a sense of peace in the budgetary process, so there are no ad hoc policies. Estimates on the annual inflation rate, unemployment rate and interest rate, are included in the budget, but not as specific targets (Minister van Financiën, 1995, p. 2).

Expenditure ceilings

Expenditure targets are primarily based on GDP growth estimates, and by calculating budgetary space or margin, ie, the room for new expenditure, tax reductions and improvement of budget balance due to economic growth. As said, GDP growth figures are deliberately set cautiously.

Expenditure ceilings for the next four years are set in real terms in the coalition agreement and the cabinet's first annual budget. Separate ceilings are set for the three budgetary sectors national government, social security and health care. Within the national government budget, specific expenditure ceilings are set for each ministry, and within the ministerial budget ceilings are specified for different programmes, but these can be shifted in case of setbacks.

For every decision making moment in the budgetary cycle, these expenditure ceilings in real terms are transformed into nominal targets using the GDP-deflator as it is expected at that time. More specifically, the nominal targets in the budget for t+1 (which is sent to Parliament in September of year t) are determined with the real targets and the GDP-deflator as it is expected at that time. This nominal target can be adapted only once to changes in the expected GDP-deflator and that is at the time of the report to Parliament in the spring of the year t+1 (at that time the current year). Revision of these ceilings in nominal terms occurs only because of changes in the GDP-deflator (Minister van Financiën, 1995, p. 2).

Separation of revenue and expenditure and other disciplinarian rules

There is a strict separation of the expenditure and income sides of the budget, in contrast to the policy of the Lubbers era. Setbacks on the income side are not compensated by cutbacks on the expenditure side and vice versa.

The main rule for budgetary discipline is that all setbacks on the expenditure side must be compensated (Ministerie van Financiën, 1995a, p. 232). Expenditure setbacks are first compensated within the ministry (so-called specific compensation). If no solution can be found, setbacks will be compensated by other ministries (general compensation), but this requires a Cabinet decision (Ministerie van Financiën, 1995a, p. 233). Expenditure windfalls can be used to compensate setbacks within a ministry, but not to intensify programmes or start new ones. However, in exceptional cases Cabinet can to decide on intensifying programmes or starting new programmes, which also requires approval by the Parliament, as do all changes in the budget that has been approved by Parliament.

Because of the strict separation between the revenue and expenditure sides of the budget, higher than expected revenue cannot be used for increased expenditure. However, this also means that in case of lower than expected revenues, there is no pressure to reduce expenditure.

Maximum deficit

In the trend based budgetary policy of the first Kok government, there was a set norm for the financial deficit. This deficit ceiling was no goal in itself, but more of a precondition. The financial deficit is allowed to fluctuate under an annual cap value, as determined in the Coalition agreement. However, this cap may not be exceeded, but for this purpose, incidental factors are excluded from the deficit. If the financial deficit would exceed this cap value, changes in the budgetary policy are only made in case of extreme circumstance and after a thorough study of the economic situation. In practice, these changes could only be made two years after the start of the cabinet's term in office, to adjust for the second half of the term.

One main decision making moment

The entire trend based budgetary system is designed to avoid hectic, ad hoc decisions, by following the economic trends instead of day to day economic changes. Long term goals are set in the coalition agreement. During the budgetary cycle there is only one main decision moment each year: in the spring of t-1 expenditure ceilings are decided upon.

5.3.4 1998 - 2002, Cabinet Kok II

The second Kok government continued the trend based budgetary policy, but made a few minor changes (Studiegroep Begrotingsruimte, 2001; Ministerie van Financiën, 2000a).

First of all, an expenditure reserve was established to deal with possible unexpected setbacks regarding real expenditure. This reserve is 250 million guilders for each year of the 1999 to 2002 cabinet period. The cumulative expenditure reserve for this period thus amounts to 1 billion guilders (Ministerie van Financiën, 2000a).

The deficit ceiling (3%, in compliance with the EMU criterion) of the first Purple cabinet, that had to make sure the Netherlands qualified for the EMU, was dropped for the duration second term. However, since this norm was dropped in 1998, there has been no need for it: the deficit never came close to the 3% ceiling.

Furthermore, income-gauging tools were introduced to help to determine the income windfalls and setbacks. This is an income frame against which, in the preparation of the budget, it is measured whether windfalls or setbacks in the income will occur on balance. Gauging tools are determined for tax, (social security) premiums and gas assets.

A formula for windfalls and setbacks on the revenue side of the budget was introduced. Windfalls and setbacks on the income side would be divided between deficit reduction and tax cuts[20]. The proportion for each depended on the current EMU-deficit. If the deficit was below 0.75%, windfalls on expected revenues are distributed evenly (50/50) between lowering the EMU deficit and tax relief. If the deficit is above 0.75% (though not approaching 3%), 75% of revenue windfalls will be used to lower the deficit, and 25% can be used on tax cuts. If the EMU deficit nears 3%, all windfalls must be used to lower the deficit.

If there are unexpected setbacks on the income side, these are made up for by letting the deficit rise (75%) and raising taxes (25%), as long as the deficit is lower than 1.75% GDP. If the deficit is higher than 1.75% (but not approaching 3%), unexpected revenue setbacks are distributed evenly (50/50) over the deficit and taxes, as long as the deficit does not exceed 3% (Studiegroep Begrotingsruimte, 2001, p. 24).

Financial Management Reforms: VBTB and BLS

During this same period, a major project for financial management reform was introduced. The programme consisted of two parts: a switch from a cost/commitments system to accrual accounting (*'Baten-Lasten Stelsel'* or BLS), and from financial accounting to policy accounting (*'Van Beleidsbegroting tot Beleidsverantwoording'* or VBTB).

This programme can be seen as part of an international trend (see also section 2.4.3):

> *"[A] growing number of countries have already shifted or are planning to shift from cash-based to some form of accrual accounting in the public sector. Usually, the implementation of some accrual-based system is linked to wider financial management reforms including performance management requiring information on cost."* (van der Hoek, 2005, p. 32)

In 'From Expenditure to Cost' (Ministerie van Financiën, 1997b), the pros and cons of accrual accounting were explored. Accrual accounting was already practised by certain agencies, while the rest of the government used a mixed cash/commitments system (van der Hoek, 2005, p. 32). From 2001 on, accrual accounting would be possible for parts of government other than these agencies.

Accrual systems of accounting and budgeting focus on costs rather than cash expenditure: while a cash-based system books expenditure the day of spending, in an accrual system the costs of investments can be spread over the time of use. At first, the goal was for the whole central government sector to eventually make the switch (Ministerie van Financiën, 2001b, p. 84) in order to achieve greater transparency and accountability. But this view was soon reconsidered when the system was found to have merits mainly for the parts of government that fit the agency model (Ministerie van Financiën, 2003b). Improvements in transparency and accountability for the parts of the central government that do not fit the agency model would have to come from VBTB.

In 1999, a document entitled 'From Policy Budget to Accounting for Policy' was published by the Dutch government (Ministerie van Financiën, 1999a), introducing a policy of performance budgeting and accounting which has become known by the Dutch acronym of the document's title: VBTB (*'Van Beleidsbegroting tot Beleidsverantwoording'*). This programme thoroughly restructured the budget: appropriations are now made for policy lines (an average of 10 per department), defined by outcomes the departments aims to

[20] These rules were not set in stone: in 2001, revenue windfalls were used to repay EMU dept instead.

achieve (Sterck, 2007, p. 195). This dramatically reduced the number of articles on the central government budget: from more than 800 to around 140 (Inter-ministerial Consultations for Financial and Economic Affairs (IOFEZ), 2004; cited in: Sterck, 2007, p. 195).

Each article is accompanied by the answers to three questions (which in Dutch, all start with a 'W'): 'What do we want to achieve?', 'What will we do to achieve it?' and 'How much would it cost?'. Especially this third question links the VBTB and BLS programmes by focusing on costs rather than cash expenditure, especially in cases where expenditure yields benefits over a number or years (van der Hoek, 2005, p. 40).

Three more questions are to be answered (this time all 'H's) in the Financial Report: 'What did we achieve?', 'Did we do what we thought we would do?', and 'Did it cost was we thought it would cost?' To create more emphasis on the Financial Report, a new date was added to the budgetary calendar. The Financial Report is now issued separately from the new budget proposals: four months earlier, in May instead of September of the following year (see also section 5.2.4).

The introduction of performance budgeting has not been without problems either (van Nispen & Posseth, 2006, 2007), but this (as of yet) has not prompted a (partial) reversal as with BLS.

5.3.5 2002 – present: The Balkenende years

The subsequent Balkenende coalitions[21] continued to use the trend-based budgeting policy, with a few amendments.

The government's aim is a balanced budget or a surplus, and to achieve this goal, the expenditure framework is tightened. Each governmental sector has its own expenditure ceiling, and setbacks in one sector can no longer be compensated by windfalls in another, except for very exceptional cases (Ministerie van Financiën, 2007b, p. 16).

A signal value is set at a EMU deficit of 2.5%, and later lowered to 2%, so additional measures are taken early rather than when the deficit is already too close to (or at) 3%. The automatic stabilizers now also use this signal value, and are set to further reduce the deficit. All windfalls and setbacks on the revenue side will be absorbed by the EMU deficit, but only up to 2.5%. Only in case of a budget surplus of 1% can revenue windfalls be partially (25%) be used for tax cuts. In 2003, also this provision is eliminated, terminating the last of the windfall/setback formulas.

Another new addition is the income framework, which works similarly to the expenditure ceilings on the opposite side of the budget. A framework is set for the duration of the Cabinet's term in office, and any windfalls may not be used for new policies, nor may setbacks lead to cutbacks. Temporary departures from this framework are allowed, as long as compensation follows in subsequent years within the government term (Ministerie van Financiën, 2009b).

[21] Prime Minister Balkenende presided over four cabinets from 2002-present. The first (2002-2003), a CDA/VVD/LPF-coalition (Christian Democrats, Liberals, Right-wing Populists), fell within months. The second (2003-2006), a CDA/VVD/D'66-coalition (Social-Liberals replacing the LPF) did not complete its run either. After a care-taker government formed by CDA and VVD (2006-2007), Balkenende acts as prime minister of a CDA/PvdA/CU-coalition (Christian Democrats, Labour, Social Christians – 2007 to present).

6. Analysis

As discussed in chapter 3 on Europeanization, it is difficult to pinpoint exactly how the relationships lie between influencing factors and factors being influenced, between dependent and independent variables (Dyson & Featherstone, 2003; Featherstone, 2003, p. 4; Olsen, 1996, p. 271). However, for the span of this thesis I assume that the EMU has had at least some level of impact on the way the Dutch government draws up its budgets. And as I will show in this chapter, the Dutch government seems to agree.

In the previous chapter, I discussed how the Dutch budgetary institutions have developed during the years the EMU was formed. However, I did not yet go into detail on *why* these changes were made, or what arguments were used. That will be the topic of this chapter. First, I shall examine official documents from the Dutch government and look for the arguments that were used to support the changes discussed in chapter 6, whether they lie in Europe or elsewhere. Subsequently, I will see if the changes that were made create any form of pattern when regarded from the perspective of Wildavsky's cultural budgeting theory, as discussed in Chapter 2.

6.1 Document analysis: the practitioners' view

For the official view[22] on why certain changes were made to the way the Dutch government budgets, I reviewed two sources: the annual budget memoranda for the years 1993 to 2009[23], and the 8th to 12th reports of the Study Group on the Budget Margin[24].

The Study Group issues a report advising the government on budgetary issues roughly once every four years (or full cabinet term). It addresses the medium-term issues for the upcoming term and any specific questions posed by the government. Its members include top civil servants from the Ministry of Finance, other relevant ministries (Ministry of Social Affairs and Employment, Ministry of Economic Affairs), as well as top officials from advisory organs to Dutch government (such as the Central Planning Office and the Social and Cultural Planning Office) and De Nederlandsche Bank (DNB), the central bank of the Netherlands. The Study Group's advice is highly regarded and often followed to a great extent.

The political choices, by and large based on the Study Group's advice, are reflected in the annual budget memoranda. In general, substantial changes are made only once per cabinet term, and will be part of a cabinet's first budget. Though budgets include information on the rules and guidelines followed when drawing it up, these are not as detailed nor as substantiated as the Study Group's reports.

To get an idea of how important European influences have been throughout the years under review, and moreover, which years were more 'fruitful' than others, I first conducted a scan of the available documents, and simply counted how many times certain

[22] I discussed the reasons for looking at the 'official view' in chapter 4. In short, everyone remembers deliberations differently, and however interesting these differences may be, the version that was recorded in official documents is the version of history that is officially endorsed, the version that the decision makers want to present to the world.

[23] Ie, the first budget since the Treaty on European Union to the present budget.

[24] The ninth report was published in 1993, and is thus the first since the Maastricht Treaty.

words were mentioned. This gives a rough idea when the Economic and Monetary Union was a hot topic that was on everyone's lips, and when it was all but forgotten.

I then have a closer look at exactly what is said in these texts about why certain changes were made, what language is used and cite a number of relevant passages. Of course I am especially interested in how the EMU influenced Dutch budgeting, but also other change agents that are cited in the official documents are relevant as possible intervening factors.

6.1.1 Reports of the Study Group on the Budget Margin

Basic quantitative analysis

Figure 6.1 provides an overview of the occurrence of four search terms in the 8th to 12th reports of the Study Group on the Budget Margin *('Studiegroep Begrotingsruimte',* abbreviated as 'SBR'). The search terms used are 'EMU' (excluding *'EMU-schuld'*, *'EMU-tekort'*, *'EMU-saldo'* and *'EMU-overschot'* as these are adopted as official definitions in the later editions under review and would thus be overrepresented) to give a general idea on how popular the topic of the Economic and Monetary Union was in any given year. The other two search terms are more specific: 'Pact' to return all references to the Stability and Growth Pact (in Dutch sometimes referred to either by its full name or simply as the Stabilitypact, hence just 'pact' to get hits for either option), 'Convergentie' to spot discussion of the Convergence Criteria, and EMU. The fourth search term, *'vergrijzing'* is not directly related with the questions posed in this thesis but, as the analysis of the Budget Memoranda will show in section 6.1.2, the term is often (and over the years, increasingly so) linked with the need for budgetary discipline, or indeed 'sound finances' (cf. Wessels & Linsenmann, 2002).

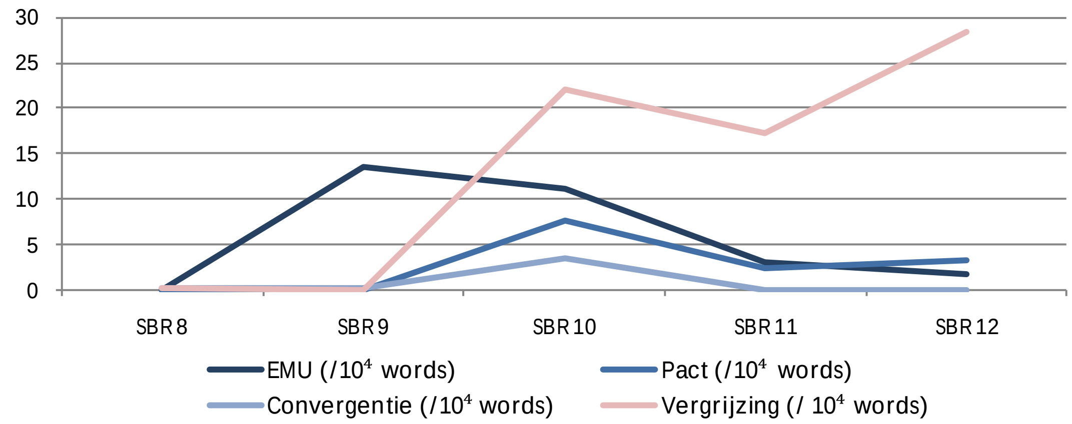

Figure 6.1 Reports of the Study Group on the Budget Margin

To correct for the varying size of the texts (especially the dropping size of the budget memoranda), all results are given as instances per 10,000 words (or, in case of 'pact' and in the budget memoranda, instances per 50,000 words to allow all terms to register on the same scale).

In Figure 6.1, it is clear that the 10th report devoted most attention to the Stability and Growth Pact. This is not surprising, as this report was published in June 1997, when the SGP had just been agreed upon in Dublin, and the Dutch government had specifically asked for advice on how to respond to its demands. In the subsequent 11th report of June 2001, attention for the Stability and Growth Pact seemed to have waned, while in the 12th report in 2006, the SGP is only briefly mentioned in one short paragraph.

The EMU receives most attention in the 9th report, which is the first report published after the signing of the Maastricht Treaty. Mentions of the EMU (not counting such uses as *'EMU-saldo'*) drop in every subsequent report.

'Convergentie' (either in the form of the criteria or as the general notion of converging policy) spikes in the 10th report, and is hardly mentioned in the earlier reports under study, and not at all in the later ones. *'Vergrijzing'* on the other hand is mentioned just once in the 8th report, not at all in the 9th report, but then starts an impressive rise in popularity to become the main topic of the 12th report of the Study Group on the Budget Margin.

Qualitative analysis

Though published before the Maastricht Treaty, the 8th report of the Study Group on the Budget Margin already alludes to the virtually inevitable impact of European integration on budgeting:

> *Mede in het licht van de versnellende Europese integratie is een verdere vermindering van het aandeel van de collectieve uitgaven en lasten, gemeten in procenten van het nationaal inkomen, vrijwel onvermijdbaar.* (Studiegroep Begrotingsruimte, 1989, p. 13)

And in the section on European integration, the Group predicts limitations on the freedom of action of national governments, including limitations on their budgeting, as a result of this ongoing integration process:

> *Naarmate de Europese integratie voortgaat, zullen de nationale overheden vrijheidsgraden verliezen bij de uitvoering van hun beleid. […] Ook in het begrotingsbeleid zullen lidstaten zich beperkingen moeten opleggen.* (Studiegroep Begrotingsruimte, 1989, p. 28)

And indeed, limitations on budgetary policy soon materialized in the form of the Convergence Criteria as part of the Maastricht Treaty. In the February 1993 request to the Study Group regarding their next advisory report, Minister of Finance Wim Kok asks for advice on how to incorporate these restrictions:

> *In lijn met het gestelde in het EMU-convergentieprogramma wordt het door het kabinet van belang geacht dat een analyse wordt opgesteld over het te voeren begrotingsbeleid in de periode na 1994, mede in een internationaal perspectief. In het bijzonder gaat het dan om de noodzakelijke beheersing van het financieringstekort en de staatsschuldquote mede tegen de achtergrond van de druk van de rentelasten op de begroting*. (Studiegroep Begrotingsruimte, 1993, p. 75)

The Study Group's answer is heavily influenced by the preconditions set by the EMU, which are strictly adhered to:

> *Door de voortgaande Europese integratie nemen de nationale beleidsmarges af. Door de toegenomen economische verslechtering vermindert ook de invloed van een expansief of restrictief budgettair beleid op de economische groei. De geringere budgettaire beleidsmarges worden heel tastbaar door de EMU-referentiewaarden ten aanzien van overheidstekort (3% BBP) en overheidsschuld (60% BBP).* (Studiegroep Begrotingsruimte, 1993, p. 14)

Part of the characteristics of the trend based budgetary policy the Study Group advises (as opposed to the structural budgetary policy practised in the 1960s and 70s), is directly dictated by the Convergence Criteria:

> *De mate waarin het tekort mag fluctueren is begrensd door een maximum te stellen aan de omvang van belastingtegenvallers die het tekort mogen belasten. Daarenboven mag de EMU-referentiewaarde voor het overheidstekort beslist niet worden overschreden. Dreigt een overschrijding van de fluctuatiemarge dan wel het EMU-plafond, dan gaat het trendmatige beleid vanzelf over in een feitelijk tekortbeleid.* (Studiegroep Begrotingsruimte, 1993, p. 26)

In next report of the Study Group, there is yet another hurdle to take: the Stability and Growth Pact, which at the time of Minister of Finance Gerrit Zalm's request to the Study

Group, had been agreed upon barely a month earlier in the December 1996 Dublin Council. The request includes the following:

> *Daarnaast zal aandacht dienen te worden besteed aan de implementatie van de derde fase van de EMU, inclusief het zogenoemde Pact voor Stabiliteit en groei. In dit kader verzoek ik u een analyse te maken ten behoeve van de Nederlandse invulling van het begrip «close to balance or in surplus».* (Studiegroep Begrotingsruimte, 1997, p. 81)

The Study Group expects the Stability and Growth Pact to have a sweeping impact on Dutch budgeting, regarding it as the guiding principle for the upcoming term:

> *Het stabiliteits- en groeipact zal een leidraad moeten worden voor het Nederlandse begrotingsbeleid in de komende kabinetsperiode.* (Studiegroep Begrotingsruimte, 1997, p. 31)

On more than one occasion in the report, entitled *"Op weg naar begrotingsevenwicht"* ("Towards Budgetary Balance") the Study Group stresses that the government should not count on ever being able to avoid the SGP norms on the grounds of exceptional circumstances (so *begrotingsevenwicht*—or at least deficits no higher than 3%—it shall have to be):

> *Naar verwachting zal Nederland nooit een beroep kunnen doen op «exceptionele omstandigheden» waarbij overschrijdingen boven een EMU-tekort van 3% tijdelijk worden toegestaan, aangezien een krimp van de economie die aan die kwalificatie voldoet (meer dan 2% krimp) voor Nederland zeer zeldzaam is.* (Studiegroep Begrotingsruimte, 1997, p. 33)

In its 10th report, the Study Group also explores the need for legal measures limiting the deficit. By comparing similar legislation in the United States (in the form of the Gramm-Rudman-Hollings bill on the federal level, and the balanced-budget requirements on the state level), Germany (where budgetary prudence is embedded in the constitution) and New Zealand (the 'Fiscal Responsibility Act'), the Group concludes that it is also desirable to limit by law the Dutch deficit, because although the Netherlands is bound by the Maastricht Treaty, there is nothing prescribing how these norms should be met:

> *Nederland heeft zich bij ondertekening van het Verdrag van Maastricht in 1992 al aan een wettelijke beperking van het tekort verbonden. Bij het ingaan van de derde fase van de EMU zal een bovengrens van 3% voor het tekort worden gesteld, die slechts in exceptionele omstandigheden overschreden mag worden. In Nederland is echter niet vastgelegd hoe aan de door het stabiliteits- en groeipact gestelde voorwaarden moet worden voldaan.* (Studiegroep Begrotingsruimte, 1997, p. 79)

The Study Group therefore advises to consider amending the *Comptabiliteitswet* (Government Accounts Act) to guarantee it becomes practically impossible to cross the SGP's 3% deficit norm[25].

By late 2000, when Minister of Finance Gerrit Zalm addresses the Study Group, setting the themes for the upcoming report, the Stability and Growth Pact is no longer a hurdle, but the Netherlands, like most other European countries now meet its requirements. He writes,

> *Het advies van deze Studiegroep zal door de gunstigere uitgangspositie van de overheidsfinanciën een ander karakter kunnen krijgen dan de vorige adviezen. De analyses zullen thans plaatsvinden tegen de achtergrond van het feit dat Nederland, net als de meeste landen in de Europese Unie, een «close to balance or in surplus» situatie heeft bereikt, conform het zogenaamde Pact voor Groei en Stabiliteit. De aandacht bij het budgettaire beleid verschuift daarmee naar de duurzaamheid en de houdbaarheid van de overheidsfinanciën op langere termijn.* (Studiegroep Begrotingsruimte, 2001, p. 83)

And indeed the character of this eleventh report of 2001 is quite different: with no need to focus on the immediate need to curb a government deficit, the spotlight now shifts to

[25] No such provisions have (yet) been added to the *Comptabiliteitswet*.

the more long-term question of the government debt. The need to repay the debt is linked to the effects of an ageing population, already a big—and increasing—theme in previous reports.

In this report, the Study Group reviews yet-to-be published research on the use and effectiveness of budgetary norms across Europe by Von Hagen et.al. (2001), commissioned by the Dutch Ministry of Finance. (I discussed the same research report in the section on Europeanization.) The Study Group concludes that for a commitment state like the Netherlands, it is desirable to have clear multi-year commitments, and set norms and rules for coping with any windfalls or setbacks:

> *Op basis van het onderzoek van Von Hagen kan worden geconcludeerd dat het voor een land als Nederland waar sprake is van coalities tussen verschillende regeringspartijen zinvol is om bij het budgettaire beleid gebruik te maken van normen en regels. Het is aan te raden om heldere meerjarige budgettaire plannen vast te leggen in een regeerakkoord. Het hanteren van behoedzame ramingen is verstandig om moeizame onderhandelingen binnen de coalitie bij tegenvallers te voorkomen en is in een aantal vergelijkbare Europese landen dan ook gebruikelijk. Verder valt het aan te raden dat de betrokken partijen geschikte afspraken maken over de aanwending van mee- (en tegen)vallers en deze in formele regels vastleggen om zo de budgettaire discipline te handhaven. Het laten werken van de automatische stabilisatoren past goed in deze benadering alsook binnen de afspraken die zijn gemaakt in het Stabiliteits- en Groeipact.* (Studiegroep Begrotingsruimte, 2001, p. 37)

With the twelfth report in 2006, (with its telling title *'Vergrijzing en Houdbaarheid'*: 'Aging and Sustainability'), attention seems to have shifted almost completely to the (though as the analysis of the Budget Memoranda below shows, not unrelated) challenge of coping with an aging population. Concern for how to handle the EMU and Stability and Growth Pact seems to have nearly completely dissipated. However, this is not to say that the—by then—much breached and subsequently amended SGP has diminished the Study Group's belief in the importance of 'sound finance':

> *De ervaring van de afgelopen kabinetten onderstreept het belang van het bewaren van een veilige marge tot de grens van het tekort van 3 procent van het BBP uit het Verdrag van Maastricht. Conjuncturele en incidentele bewegingen in het EMU-saldo kunnen leiden tot overschrijding van de 3%-grens van het Verdrag van Maastricht, zoals de ervaring van 2003 heeft bewezen.* […] *Om de conjuncturele en incidentele bewegingen in het saldo op te kunnen vangen zonder de 3% te overschrijden is minimaal een structureel overschot op de begroting noodzakelijk.* (Studiegroep Begrotingsruimte, 2006, p. 10)

6.1.2 Annual Budget Memoranda

Basic quantitative analysis

Figure 6.2 is similar to Figure 6.1, but now with the annual budget memoranda (*'Miljoenennota',* abbreviated as 'mn') of 1993 to 2009 (main text only[26]) as object of study. The keywords charted are again *'EMU'* (excluding occurrences such as EMU-tekort, EMU-schuld), '*Convergentie*', *'Pact'*, and *'Vergrijzing'*. Note that, to keep all keywords on the same scale, '*Pact'* is displayed as occurrences per 50,000 words, whereas the other three keywords are listed per 10,000 words[27].

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[26] As of 2006, a number of appendices are published on a website only and no longer as part of the official document, so even correcting for the number of words would give a skewed picture. I therefore decided to disregard all appendices *for the scope of these graphs*, and only represent the main text. In the qualitative analysis I will regard the full budget, appendices and all.

[27] To display all terms on the same scale and in the same graph would mean that the scores for 'pact' in the *Miljoenennota* chart would become so small, they'd be difficult to distinguish differences from one year to the next. Since it is the differences on any given search term from one year to the next that is most interesting,

Convergence predictably sees its time in the spotlight early on in this period: from the Maastricht Treaty ahead of the first budget under review (1993) with its peak around the moment of truth in 1997/1998 when sufficient convergence is rewarded with the golden ticket to Stage Three of Economic and Monetary Union.

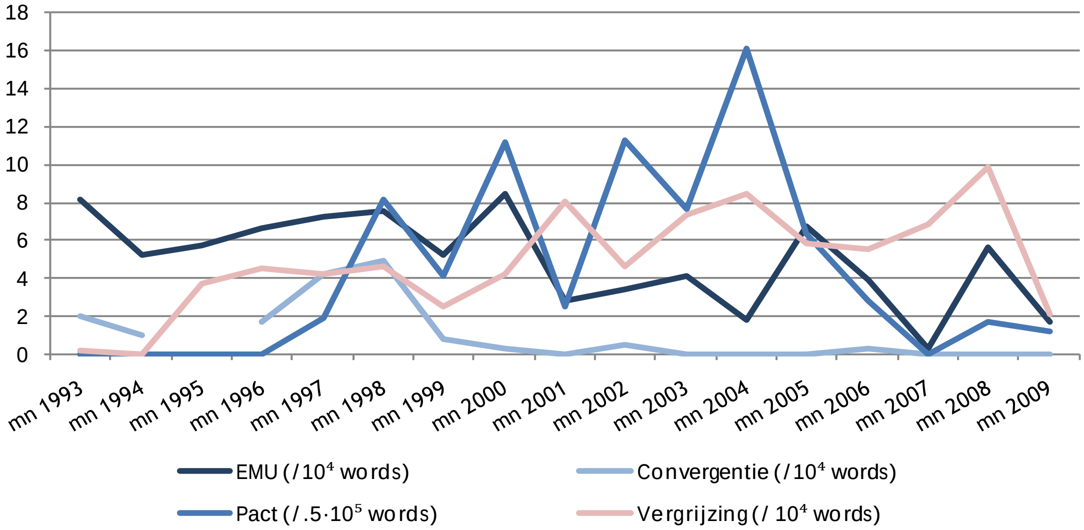

Figure 6.2 Annual Budget Memoranda

Talk of the Stability and Growth Pact mainly waxes as deadlines near or when targets are missed, and wanes as soon as the crisis is over. For example, 'pact' shows a clear peak in the 2004 Budget Memorandum, when the Netherlands, unless something was done to curb the trend, was in danger of breaching the Stability and Growth Pact.

'Vergrijzing', as I will show below, is a topic that is increasingly linked to the need for sound finance (see also van der Steen, 2009).

Qualitative analysis

In the first budget memorandum after Maastricht, of 1993, the theme is still exploratory. This budget contains an appendix describing the characteristics of the upcoming Economic and Monetary Union, but does not yet go into detail on how the Dutch government plans to fulfil the requirements of the Convergence Criteria. They do say however that they plan to be ready well ahead of time (Ministerie van Financiën, 1992, p. 19), although it is left to the next cabinet to determine how that will be done (Ministerie van Financiën, 1992, p. 359).

The 1994 Budget Memorandum arrives on the eve of the second stage of EMU: January 1 1994, the start date of the period covered by this budget, also marks the start of Stage 2. With progression into this second stage, the Convergence Criteria will become active. The prognosis for the Netherlands qualifying is good (Ministerie van Financiën, 1993, p. 350), and no specific measures are taken.

Such measures first start to appear with the 1995 Budget Memorandum. This is the first budget by the new Kok cabinet, so much of it is based on the coalition agreement, including deficit ceilings in order to qualify for EMU:

Het beleid ten aanzien van de collectieve sector is mede gericht op tijdige kwalificatie voor de derde fase van de EMU. Dit maakt, ook gegeven de staatsschuld- en rentelasten-

rather than the differences between the different search terms in one specific year, the scale per search term is not of crucial importance.

> *problematiek, een verdere daling van het financieringstekort op de rijksbegroting noodzakelijk. In dit kader zijn in het regeerakkoord, uitgaande van behoedzame veronderstellingen met betrekking tot de economische groei, plafonds voor dit tekort afgesproken [..].* (Ministerie van Financiën, 1994, p. 11)

This budget is also the first to implement the advice of the 9th report by the Study Group on the Budget Margin in which a trend based budgetary policy, based on cautionary assumptions is proposed. The 1995 Budget is the first to put these new budgetary rules into practice. Section 1.4 of the Budget Memorandum sums up the characteristics of the new trend based budgeting (see section 5.3.3), and concludes with the words,

> *Dit geheel aan afspraken voor het te voeren begrotingsbeleid moet ertoe leiden dat Nederland zich tijdig kan kwalificeren voor de derde fase van de EMU.* (Ministerie van Financiën, 1994, p. 11)

With the trend for the upcoming years set by the Coalition Agreement and the 1995 Budget Memorandum, the subsequent budget of 1996 does not add much to the intrinsic approach of coping with EMU pressures. Besides the criteria on interest and interest rates (Ministerie van Financiën, 1995b, p. 10), the Netherlands now also meets the criterion on government deficit (Ministerie van Financiën, 1995b, p. 36), while the 60% mark for the debt will not be reached in time, but at least the debt is dropping steadily. However, it has become clear that the earliest time frame for progression into Stage Three (1 January 1997) will not be feasible, and that the third stage of EMU will commence on 1 January 1999 (Ministerie van Financiën, 1995b, p. 9).

The focus on the two more problematic criteria—government deficit and debt—continues the following year: *"De voorliggende begroting heeft mede als doel om de jarenlange vanzelfsprekendheid waarmee Nederland altijd voldeed aan criteria op het terrein van rente, inflatie en wisselkoers, te verbreden tot een solide prestatie ten aanzien van tekort- en schuldontwikkeling."* (Ministerie van Financiën, 1996, p. 10)

The 1997 Budget is especially critical when it comes to the EMU: *"De prestaties in 1997, ook die van Nederland, bepalen immers welke landen zullen deelnemen aan de derde fase van de Economische en Monetaire Unie"* (Ministerie van Financiën, 1996, p. 10) In the introduction to the 1997 Budget Memorandum, Minister of Finance Zalm refers to the challenge of qualifying for the third stage of EMU as the key to successfully meeting other challenges:

> *Een derde nieuwe uitdaging is de Economische en Monetaire Unie. Voordat de derde fase van de EMU van start gaat, zijn nadere Europese afspraken nodig over de begrotingsdiscipline van de deelnemende landen. Voor Nederland vergt dit een verdere verkleining van het begrotingstekort en daling van de overheidsschuld als aandeel van het Bruto Binnenlands Product. Omdat zo'n ontwikkeling ook een neerwaartse beweging in gang zet van het beslag aan rentelasten op de begroting, is deze derde uitdaging tevens een sleutel voor het succesvol aangaan van de andere uitdagingen.* (Ministerie van Financiën, 1996, p. 5)

The government is content with the working of the trend-based way of budgeting, introduced at the advice of the Study Group on the Budget Margin two years earlier, but at the same time stresses not to become complacent, especially in light of the demands of the EMU:

> *Het succes van de door de regering geïnitieerde begrotingssystematiek (behoedzame macro-economische uitgangspunten en rust in het begrotingsproces) mag er uiteraard niet in resulteren dat de aandacht voor een goede uitgavendiscipline verslapt. Ook in de komende jaren blijft een strakke budgetdiscipline noodzakelijk. De uitgavennormen dienen als plafonds te fungeren en niet als op te vullen maxima. Een stringent uitgavendiscipline klemt temeer in het licht van de toekomstige deelname aan de Economische en Monetaire Unie en de wens om*

lastenverzwaring te voorkomen en indien mogelijk een verdere verlichting te realiseren. (Ministerie van Financiën, 1996, p. 41)

With the Stability and Growth Pact signed a few months before the 1998 Budget is sent to Parliament, it is clear that Europe-wide budgetary discipline will not end with qualifying for the third stage of EMU, but stretch on indefinitely (Ministerie van Financiën, 1997a, pp. 25-6). The 1997 Budget already hinted at the upcoming pact, then under negotiation (Ministerie van Financiën, 1996, p. 19). Like the Study Group reports, the 1999 budget also links the demands of the SGP with the need for budget discipline because of the growing cost of an aging population, thus stressing the importance of 'sound finances':

> *Bij meevallende economische groei moet het, met de hierboven geformuleerde evenwichtige afspraken ten aanzien van tekortverlaging en lastenverlichting, mogelijk zijn om het EMU-tekort verder terug te brengen. Dit is van belang met het oog op de komende vergrijzing. Een begrotingssituatie van vrijwel in evenwicht of in overschot is daarnaast nodig om te voldoen aan de eisen—vastgelegd in het Stabiliteits- en Groeipact—die samenhangen met de deelname aan de derde fase van de EMU.* (Ministerie van Financiën, 1998, pp. 12-3)

The system of trend-based budgeting is performing to satisfaction, also in light of the Stability and Growth Pact, and thus continued by the new cabinet:

> *In de Nederlandse begrotingssystematiek ligt het accent op toepassing van uitgavenkaders en van behoedzame economische uitgangspunten. In combinatie met de strikte scheiding tussen uitgaven en inkomsten heeft deze systematiek gezorgd voor een grote mate van bestuurlijke rust. In andere EMU-landen (vooral diegene met nog relatief hoge tekorten) is het budgettaire beleid meer op het begrotingssaldo gericht. Waar de Nederlandse systematiek vooral gemotiveerd is door de wens ad-hoc besluitvorming te vermijden, gaat in Europees verband meer de aandacht uit naar het creëren van voldoende ruimte voor het stabiliserende effect van de automatische stabilisatoren. Dit is ingegeven door de gedachte dat het gezamenlijk monetair beleid geen rol kan spelen in het opvangen van asymmetrische schokken of uiteenlopende conjunctuurcycli. In het Pact voor Stabiliteit en Groei is afgesproken dat de begrotingsposities in de EU-landen op middellange termijn dichtbij evenwicht moeten zijn of een overschot moeten vertonen, opdat de automatische stabilisatoren kunnen werken, zonder dat gevaar bestaat dat het maximum voor het EMU-tekort van 3% BBP wordt overschreden.* (Ministerie van Financiën, 1999b, p. 22)

This budget often speaks of 'peer pressure' between Member States, and the need to look at 'best practices' across Europe: *"Door «peer pressure» en uitwisseling van «best practices» kan het tempo van hervormingen worden verhoogd, zodat convergentie naar goedpresterende landen optreedt."* (Ministerie van Financiën, 1999b, p. 23) Reading on, one might get the impression that where the budget's authors write 'best practices', what they really mean is '*our* practices'[28]:

> *Tijdens de behandeling van de stabiliteitsprogramma's bleek dat andere landen geïnteresseerd zijn in deze systematiek en elementen ervan inmiddels hebben geïntroduceerd. Zo heeft Frankrijk een systeem van meerjarige reële uitgavenkaders geïntroduceerd en gebruikt België een mee- en tegenvallerformule.* (Ministerie van Financiën, 1999b, pp. 263-4)

For the 2001 Budget, there is again no reason to deflect from this strategy. The Netherlands has now dipped below the 60% debt mark for the first time in 20 years (Ministerie van Financiën, 1999b, p. 72), and finds itself in the middle of the pack of EMU Member States (Ministerie van Financiën, 2000a, pp. 25, 53).

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[28] This impression is enforced by a number of English language publications around this time, eg, *THE BUDGETARY POLICY OF THE SECOND KOK GOVERNMENT* (Ministerie van Financiën, 2000b).

This budget also introduces the switch from cash to accrual accounting[29] (see also sections 2.4.3, 5.3.4): *"In de tweede plaats creëert het begrotingsoverschot—en de daarmee samenhangende afstand tot de EMU-tekortwaarde van 3%—ruimte om over te stappen van een begrotingsstelsel dat gebaseerd is op kasuitgaven en kasontvangsten, op het zogenoemde baten-lastenstelsel."* (Ministerie van Financiën, 2000a, p. 82) This appears the only way in which the government links the switch to accounting to the Economic and Monetary Union[30].

The Budget Memorandum of 2002 again links sound finance with not only a stable monetary union, but also the need to plan ahead for an ageing population, and the Dutch government is now spreading that message across Europe:

> *Houdbare overheidsfinanciën zijn van cruciaal belang voor een stabiele EMU. Daarom worden nu ook ervaringen uitgewisseld met beleid dat wordt gevoerd met het oog op de vergrijzing. Mede op aandringen van Nederland is op de bijeenkomst van de Europese Raad dit voorjaar in Stockholm afgesproken dat lidstaten in de stabiliteits- en convergentieprogramma's aandacht besteden aan de budgettaire gevolgen van de vergrijzing en aan de nationale beleidsreacties. Monitoring van beleid en uitwisseling van «best practices» kunnen uitmonden in verbeteringen van de nationale beleidsstrategieën. Lidstaten kunnen vervolgens druk uitoefenen op andere lidstaten («peer pressure») indien zij onvoldoende maatregelen nemen om de gevolgen van de vergrijzing op te vangen.* (Ministerie van Financiën, 2001b, p. 22)

Like the Study Group report of the same year, this Budget Memorandum also refers to *The Use and Effectiveness of Budgetary Rules and Norms in EU Member States* by Jürgen von Hagen et.al. (2001) but does not, as of yet, draw any conclusions or propose changes based on Von Hagen's findings. While the Study Group uses the study to stress the need for strict rules, the Budget Memorandum portraits it as illustration of the Dutch approaches as a 'best practice':

> *Daarnaast zijn er landen, zoals Nederland, waar verschillende politieke partijen samen een coalitie vormen. In deze landen speelt het regeerakkoord waarin de budgettaire doelstellingen voor de regeerperiode worden vastgelegd een belangrijke rol. Voor wat betreft de budgettaire uitkomsten is deze groep landen gebaat bij een meerjarig raamwerk voor de begroting en duidelijke regels ten aanzien van onverwachte budgettaire ontwikkelingen in de begrotingsuitvoering. Verder blijkt ook een sterke verwevenheid van de nationale begrotingscyclus met het Stabiliteits- en Groeipact gunstig te zijn voor de uitkomsten. Naast Nederland behoren ook Ierland, België, Finland en Luxemburg tot de landen met coalitieregeringen. Het onderzoek laat zien dat landen die deze regels niet hanteren minder goed presteren op budgettair gebied. Zij kunnen derhalve als «best practices» worden beschouwd.* (Ministerie van Financiën, 2001b, pp. 101-2)

The 2003 Budget is the first (and as it would turn out, only) of the new Balkenende I cabinet. However, by the time the budget is published, it is clear that the economic situation is no longer as rosy as assumed in the coalition agreement:

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[29] Here, accrual accounting is represented as a factor that might increase the deficit, but in his paper on the Dutch experience with the move to accrual accounting (2005, p. 39), Peter van der Hoek suggests the opposite: *"Standardization of public spending on the basis of costs implies that cash expenditure can vary. Although costs may be equal to cash spending, this is not true in the case of investments.21 A cash-based system recognizes investment at the date of spending, whereas an accrual-based system spreads the costs of investments over time (in the form of depreciation of assets). Given the 1997 deficit it seemed possible that fluctuations in cash expenditure could result in a deficit exceeding the EMU accession criterion of three percent of GDP, which later on became one of the requirements of the EMU's Stability and Growth Pact."*

[30] I failed to find any mention of the EMU (or the demands Stability and Growth Pact) in the policy documents on the financial management reform programmes VBTB or BLS (see section 5.3.4), except that the policy document on BLS includes the same argument as used here, ie, that there needs to be sufficient cushioning, or the switch to accrual accounting might push up the deficit past 3% GDP (Ministerie van Financiën, 1997b, 1999a; Zalm, Veerman, Ministerie van Financiën, & Ministerie van Landbouw, 2004).

> *Als gevolg van de teleurstellende prestaties van de Nederlandse economie in 2001 en 2002 is de budgettaire situatie in korte tijd aanzienlijk verslechterd. De ongunstige gevolgen van de zwakke economische groei openbaren zich—zoals gebruikelijk—ook nu pas na enige tijd volledig.* (Ministerie van Financiën, 2002, p. 18)

However, this does not call for a change in the budgeting rules. On the contrary, the fact that the Netherlands is not as bad off as some of its larger neighbours is attributed to the trend-based budgeting system:

> *In vergelijking met de grote EU-landen blijft het tekort op de begroting daarmee relatief beperkt van omvang. Deze relatief kleine omvang is—behalve aan de maatregelen die volgend jaar worden genomen—mede te danken aan de sterke verbetering van het begrotingssaldo die bij het gevoerde trendmatige begrotingsbeleid is gerealiseerd ten tijde van de hoogconjunctuur van de jaren 1996–2000.* (Ministerie van Financiën, 2002, p. 18)

Another year, another cabinet, and the economic slump continues. In the 2004 Budget it is feared the Netherlands might come close to breaching the Stability and Growth Pact:

> *Indien wij nalaten de economische en budgettaire problemen aan te pakken, krijgen de huidige generatie én volgende generaties daarvan later de rekening gepresenteerd: in de vorm van structurele werkloosheid, blijvende economische problemen en ontspoorde overheidsfinanciën. Bovendien zal ons land zonder maatregelen de Europese afspraken uit het Stabiliteitspact schenden.* (Ministerie van Financiën, 2003a, p. 7)

In order to cope in these troubled times, the new cabinet's coalition agreement includes a number of amendments to the existing budgetary rules. One of the amendments is summarized quite simply as:

> *Het EMU-saldo dient in overeenstemming te zijn met de vereisten van het Stabiliteits- en Groeipact.* (Ministerie van Financiën, 2003a, p. 102)

Another new rule is aimed at the prevention of exceeding the cap on the deficit of the Stability and Growth Pact by setting a safety margin slightly below the SGP limit[31]:

> *Door de budgettaire situatie zijn de Europese afspraken uit het Verdrag van Maastricht en het Stabiliteits- en Groeipact ook voor Nederland actueel geworden. Deze afspraken zijn cruciaal voor de monetaire en economische stabiliteit in Europa en moeten daarom door alle lidstaten worden gerespecteerd. Concreet betekent dit dat feitelijke EMU-tekorten van 3% BBP of groter niet acceptabel zijn. Om te voorkomen dat deze limiet door onverwachte tegenvallers wordt overschreden, hanteert het kabinet een grens van 2,5% BBP voor het feitelijke EMU-tekort.* (Ministerie van Financiën, 2003a, p. 11)

Though it is not just the European agreements the government worries about: whenever the threatening breach of the SGP is mentioned, this is immediately followed by a statement on the effect of an ageing population, and what a disastrous effect a deficit high enough to breach the SGP would have on those preparations (see Ministerie van Financiën, 2003a, pp. 11, 12, 13).

Slightly better—albeit still below EU average- economic tidings arrive with the Budget Memorandum for 2005. Extra measures are taken to ensure the Stability and Growth Pact is not breached for second year running (Ministerie van Financiën, 2004, p. 21). The crisis ends with the following budget, which arrives a couple of months after the Netherlands is released from the excessive deficit procedure (EDP). This also marks the return of the trend based budget, from which had been temporarily deviated when the EMU-deficit exceeded 3% (Ministerie van Financiën, 2005, pp. 63, 78, 82).

The 2007 Budget again predicts a small surplus (Ministerie van Financiën, 2006, p. 9), and more good news comes in the form of a report from the International Monetary Fund (IMF, 2006):

[31] These new rules cannot prevent the EMU deficit from rising to a SGP defying 3.2% in 2003.

> *Nederland voldoet aan de internationale standaard voor de transparantie van het begrotingsproces van de overheid8. Het IMF stelt dat Nederland de lat van internationale «best practice» op diverse onderdelen overstijgt. De belangrijkste elementen voor de beoordeling zijn volgens het IMF de expertise van het Centraal Planbureau (CPB), het gevoerde trendmatige begrotingsbeleid (kadersystematiek) en de integriteit en onafhankelijkheid van instellingen als de Algemene Rekenkamer (AR), het Centraal Bureau voor de Statistiek (CBS) en wederom het CPB. Het geheel van deze bestanddelen in de Nederlandse begrotingssystematiek garandeert een betrouwbare informatievoorziening en verantwoording aan parlement en publiek.* (Ministerie van Financiën, 2006, p. 57)

The Budget memorandum of 2008 brings new amendments to the budgetary rules based on the new government's coalition agreement. Notably, the new coalition expands the safety margin to the deficit norm of the Stability and Growth Pact from 2.5% to 2% to prevent the 3% mark from being crossed (again) (Ministerie van Financiën, 2007a, p. 61):

> *Indien het (structurele) EMU-saldo niet in overeenstemming is met de vereisten van het Stabiliteits- en Groeipact, en/of het feitelijk EMU-tekort de 2% dreigt te overschrijden, worden de noodzakelijke maatregelen getroffen om een verdere verslechtering van de overheidsfinanciën te voorkomen.* (Ministerie van Financiën, 2007a, p. 103)

This alteration is inspired by the breach of the Stability and Growth pact in 2003, when the 2.5% signal value was proven to be inadequate to turn the tide in time:

> *In 2003 bleek het hanteren van een signaalwaarde van 2,5 procent BBP niet voldoende om aan de Europese afspraken over het tekort te kunnen voldoen. Ondanks deze noodrem kwam het begrotingstekort hoger uit dan het maximum van 3 procent. Om deze reden is de signaalwaarde aangescherpt tot 2 procent BBP. Als het EMU-saldo de signaalwaarde dreigt te overschrijden, zal het kabinet nadere maatregelen treffen om een verdere verslechtering van de overheidsfinanciën te voorkomen. De signaalwaarde zorgt ervoor dat een tijdige en adequate reactie op veranderende economische ontwikkelingen mogelijk is. Deze duidelijke grenzen stellen de doelstellingen van het begrotingsbeleid veilig.* (Ministerie van Financiën, 2007a, pp. 64-5)

The Budget of 2009 is heavily influenced by the international financial crisis, even though at the time of the Budget's publication its effects had not yet reached the Netherlands. In an unprecedented move, the cabinet agreed on a 'supplementary policy agreement' (*'Aanvullend Beleidsakkoord'*) in March 2009, as a supplement to its coalition agreement, making much of the 2009 Budget Memorandum obsolete less than three months into its run.

6.1.3 Conclusion

In its first reports since the Maastricht Treaty (and thus *before* the Convergence Criteria need to be enforced) and the introduction of the Stability and Growth Pact, the Study Group on the Budget Margin is very clear on the leading role these two sets of European budgetary guidelines will have on the Dutch budgetary policy. The Study Group devises a budgeting strategy to make sure the Netherlands complies with first the Convergence Criteria, and then the SGP. In later years the attention shifts to the budgetary demands of an ageing population, though one does not rule out the other, but rather reinforces the need for *sound finance*: in order to sustain the ageing population, it is crucial the budget deficit is now close to balance, but preferably in surplus.

Not surprisingly the Budget Memoranda, although closely adhering to the advice of the Study Group, use a more political tone. Qualifying for the EMU is presented as a matter of pride, repeatedly using terms like 'peer pressure' to describe the relationship with fellow member states. Over the years one gets the impression that the Dutch government is quite proud of its budgeting system; that it likes to think of its budgeting practices as 'best practices' that should be exported throughout Europe.

Also in the Budget Memoranda the link between the Stability and Growth Pact and the sound finance needed for the ageing population, grows with the years. Especially when times are tough and painful measures have to be taken to comply with the SGP, this link is stressed time and again, in what seems like a reversal of the discourse used in Italy as described by Kenneth Dyson (2002, p. 25). While the Italian argument runs “We don’t want to take these painful measures, but Europe forces us”, the Dutch insists “We need to take these painful measures, but we don’t do it because Europe forces us, but because of ‘vergrijzing’”. The belief in the importance of ‘sound finances and money’ (cf. Wessels & Linsenmann, 2002) has well and truly rooted.

6.2 Testing Wildavsky’s model

The next step in my analysis of the changes in Dutch budgetary institutions, is to use Wildavsky’s theory of cultural budgeting theory (1986). I shall try to determine if, using this model, it is possible to detect a cultural shift, which then, as a next step, may be attributed to influences such as participation in the Economic and Monetary Union.

Wildavsky’s cultural theory of budgeting, discussed in more detail as part of chapter 2, assumes different political cultures or regimes cause different budgetary behaviour. Wildavsky then applies this idea to three aspects of budgeting: the form of the budget, the budgetary base, and the proclivities toward balancing or unbalancing budgets (Wildavsky, 1986, p. 337). In the upcoming section, I shall look at each of these in turn, and discuss where the Netherlands stood when the EMU began, and what has changed over the years.

Unfortunately, the model is still quite rudimentary and hence my analysis here brief. The changes in Dutch budgeting practices that I have observed serve as a test of the usefulness of the model in the context of Europeanization, with European influence defined as a force for cultural change (shift in group / grid).

6.2.1 Three aspects of Dutch budgeting

The form of the budget

The first of Wildavsky’s three aspects of budgeting is the form of the budget. A budget can take the form of the traditional line-item budget, but as part of reforms in the 1960s and 1970s, new forms emerged such as program budgeting and zero-base budgeting.

The traditional line-item budget is favoured by hierarchical regimes, as the lines of spending correspond to organizational needs, rather than the programmes they serve. The more lines, the clearer the divisions of labour between different sections of the organization, and thus between the different roles and statuses that are so important in this regime. Market regimes prefer the competition oriented program budgeting. This type of budgeting displays the costs and benefits of alternative programmes, which makes it possible to make comparisons and select the most efficient and effective alternative. Zero-base budgeting is the ideal form for sectarian regimes. With the slate whipped clean each year, there is no history or memory in the budgetary process.

In the Netherlands, the traditional line-item form of budget has in recent years given way to more programme based forms of budgeting in what’s known as VBTB—‘From Policy Budget to Accounting for Policy’—that is all about performance and accountability; see section 5.3.4. The articles in this new form of budget are shaped around the questions ‘What do we want to achieve?’, ‘What will we do to achieve it?’ and ‘How much would it cost?’ With that, the total number of articles (or lines) in the budget has dropped dramatically from more than 800 to around 140 (Inter-ministerial Consultations for Financial and Economic Affairs (IOFEZ), 2004; cited in: Sterck, 2007, p. 195).

So using Wildavsky's typology on this first aspect, the Netherlands has moved from a typically hierarchical way of budgeting, to a form that is much less hierarchical and more market oriented.

The budgetary base

The second aspect of budgeting in Wildavsky's cultural model is the budgetary base. The base of a budget is all that is carried over from the previous year; the part of the budget that is not under active review. Therefore the budgetary base represents the existing social order and creates stability; to eliminate the entire base would be nothing short of a revolution (Wildavsky, 1986, p. 339). Once an expenditure is part of the base, it is protected from serious scrutiny. Minor ups and downs (part of its 'fair share') aside, a programme does not have to 'fight' for funds year on year once in the base.

The base, as a representation of the existing social order, is typically a tool of hierarchies. In market regimes, budgets—like everything else- are highly competitive. Because of this competition, there may be some level of base, but it is not attached to any specific programmes, as funds constantly shift around. Sects and fatalists don't have a base at all: fatalists take what comes, without regard to either history or future, while sects reject any existing order.

In the Netherlands, the base is a very prominent feature of the budget. Budget items are routinely represented not in absolute numbers but as a percentage change on the previous year, and always not just for the upcoming year (the year covered by the budget) but as multi-year projections.

If anything, the position of the base has strengthened in recent years, especially when we look at the level of government sectors or ministries. With the move from cash to accrual accounting—initially planned for the entire central government, but limited to agencies—the base was reinforced. After all, accrual accounting implies that costs are spread out over the years of use of, for example, a costly investment.

Another change that may be seen as strengthening the base is the trend-based budgeting system, which relies on multi-year expenditure ceilings that are set in real terms. By using real terms rather than nominal values, the ceilings are protected from inflation. In that sense, these real terms expenditure ceilings can be seen as a form of volume budgeting[32], which Wildavsky deems to by typical of hierarchical regimes because of its protection of internal relations (Heclo, 1974; Swedlow, 2001, p. 338).

However, when we look within the budgets to specific programmes, there is an opposite force diminishing the strength of the base of individual budget items. The VBTB style budget is more flexible, allowing ministers to shift funds from one budget item to another (van Nispen & Posseth, 2007, p. 15).

The proclivities towards balancing or unbalancing budgets

The third and last aspect of budgeting under review in Wildavsky's cultural budgeting theory is the budgetary balance. He lists five possible strategies for managing spending in relation to resources:

1. Do nothing
2. Decrease spending
3. Increase revenues
4. Increase revenues and increase spending
5. Decrease revenues and decrease spending

[32] As opposed to cash budgets, which belong to an individualist culture.

Again, each political regime follows its own strategy, for its own reasons: fatalistic regimes would not take action at all (1), sects cannot manage their revenue so they must cut back spending (2). Hierarchical regimes have the opposite problem and will thus try to maximise revenue (3) whereas market regimes, who have control over both their revenues and their spending, will try to decrease both (5). Although not specifically earmarked, strategy 4 can also be seen as a hierarchical strategy, since hierarchies try to increase revenue, and as they have little control over spending, this may well increase.

These strategies result in different levels of budgetary balance or imbalance, eg, in hierarchical regimes "spending marginally exceeds revenue with both at high levels" while in market regimes the "deficit varies at low levels"; see Figure 2.4. In this model, all strategies lead to deficits, with no apparent place for a budgetary surplus. This omission is understandable considering that at the time of Wildavsky's writing, the mid-1980s, Western governments were all running large deficits because of the increasing size of government and had increasingly high debts as a result, but of course that does mean that the 'close to balance or in surplus' strategy that the Netherlands, along with the other EMU countries, is obliged to follow, is not accounted for.

In his article 'The Art and Craft of Budgeting' (2007), Frans van Nispen assesses the strength of Wildavsky's cultural theory of budgeting[33] by analysing the strategies used by the EU-15 in two six-year periods between 1993 and 2003. Although Van Nispen follows a quite different approach, I gratefully use his dataset. During the first period, between 1993 and 1998, the Netherlands decreases both revenues and spending, though as the decrease in revenues outstrips the decrease in expenditure, so the structural deficit increases. Over the second period, from 1998 to 2003, revenues are (slightly) increased, while spending is increased more substantially, again increasing the structural deficit (van Nispen, 2007, Annex VI). So these data show a shift from strategy 5 (decrease revenues and decrease spending), typical for market regimes, to strategy 4 (increase revenues and increase spending), a strategy more closely linked to hierarchical regimes.

However, taking a slightly wider time-frame into account, the pattern is probably more accurately described as an overall preference for strategy 4, with only a temporary shift to strategy 5 in the mid to late 1990s (see Figure 5.1). The concept of the structural budget margin was used to determine how much 'margin' there was for increased spending each year, based on the projected economic growth[34] (Studiegroep Begrotingsruimte, 1993, pp. 9-10, 17), ie, increased revenues financing increased spending.

6.2.2 Conclusions

The pure forms—fatalism, hierarchy, market and sect—do not exist in the real world: for a culture to be viable, it needs to be a mix of at least two regimes that interact, like the two poles on a magnet (Wildavsky, 1986, p. 333; see also section 2.4.2). In these hybrid regimes, it's the relative strength of each regime in the mix that is key.

During the years under review, the Netherlands can be said to have made shifts on all three aspects of budgeting that are part of this model. The form of the budget seems to shift away from hierarchy and towards market, with the introduction of performance budgeting. The same performance budgeting is responsible for a mixed bag when it comes to the base: while the base on the higher levels of the budget seem to strengthen (typical of hierarchical regimes), on the level of the individual programme, things have become

[33] Van Nispen concludes that although he finds some evidence supporting Wildavsky's theory, this evidence is rather weak.

[34] In a progressive tax system, economic growth leads to more than proportional increases in revenue, as increasing numbers of tax payers find themselves paying the higher rates.

less certain as funds can more easily be shifted around (i.e. more market-like). The final aspect, the balance, seems to show a temporary shift to more market-like strategies, only to return to the hierarchical strategy of increased revenues to support increased spending.

On the basis of these observations, one might conclude that according to Wildavsky's cultural theory of budgeting, the Netherlands employs a budgetary strategy that has overall been hierarchical, but during the years under review some more market type elements have been introduced. To lay cause of this shift by Europeanization would be rather rash, even if the first part of this chapter showed European influences as a leading force for change in Dutch budgeting. After all, the same period also saw a change in the political situation with progressive (arguably more market oriented) coalitions in power[35], and an overall favourable economic climate, especially during the first years under review[36]. The move to performance budgeting, the main driving force behind the observed shift to market type strategies, is part of an international trend of new, performance based types of budgeting (van der Hoek, 2005, p. 32). In the 1990s, not only budgeting but the whole of government was influenced by more market oriented reforms, influenced by New Public Management (eg, Kickert, 2005, p. 28).

If Europe was an all-powerful force, imposing its rules and regulations on Member States in a top-down fashion, we might expect to see a move to more fatalistic cultures: with more rules (stronger grid), but a weaker group as national policy makers feel little connection to the masters in Europe. Clearly, the European Union and EMU are nowhere near such an all-encompassing force; if they were, we might hear more of the rather fatalistic sounding "Europe made me do it" type of discourse from national policy makers.

However, just because Europe is not omnipotent, all-encompassing force, commanding institutional change from its Member States, of course does not mean there is no European influence at all. There are 'new rules of the game', as Mörth puts it (2003, p. 165), or indeed a new game including new players (Wessels & Linsenmann, 2002, p. 54). Even if the Dutch government makes a quite clear statement on its European influences, that does not necessarily need to translate to a big shift on Wildavsky's scale. The Dutch inclination to hold on to or return to hierarchical strategies is not surprising in a time when rules (Convergence Criteria, Stability and Growth Pact) are important. But to truly evaluate his cultural theory of budgeting, more than one country would have to be assessed.

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[35] This political change, at least when it comes to budgeting, may not be as great as the change in coalition partners suggest, as Wim Kok, the incoming prime minister in 1994, was also the outgoing Minister of Finance.

[36] Higher rates of economic growth will allow for a decrease in revenue and spending as a part of national income, while maintaining a steady amount of revenue and spending in nominal or real terms.

7. Conclusions

7.1 Introduction

The main question which I started out with in the first chapter of this thesis was: ***"To what extend have Dutch budgetary institutions changed due to EMU membership?"*** I divided this question into three sub-questions:

1. Which developments in the Economic and Monetary Union can have (had) implications for budgeting?
2. Which changes in the Dutch national budgetary institutions have been made?
3. Which factors have contributed to these changes in the Dutch national budgetary institutions?

And as a fourth, supplementary question:

4. Which recommendations can be made based on these findings?

In this chapter, I shall summarize the preceding chapters, and in doing so answer the three sub-questions above (sections 7.2, 7.3 and 7.4 respectively), in order to be able to answer the main question (section 7.5). In section 7.6 I will try to provide some recommendations based on my findings. And last but not least, I will evaluate the research process in section 7.7.

7.2 EMU and budgeting

In Chapter 5, I discussed the road to Economic and Monetary Union. The most important developments with regard to national budgetary institutions, are the 'hard' coordination rules (cf. Wessels & Linsenmann, 2002, p. 68) that make up the Convergence Criteria for entrance into the third stage of EMU, and the subsequent Stability and Growth Pact that all EMU Member States have to abide by.

The Convergence Criteria are part of the Maastricht Treaty or Treaty on the European Union (1992). European Union Member States have to meet these criteria to enter the Third Stage of the Economic and Monetary Union. Of the four criteria (on price stability, long-term interest rates, exchange rate and government finance, see section 4.3), the two-part criterion on government finance has been most influential. The government finance criterion states that the deficit must not exceed 3% of GBP, and the government debt must not exceed 60% of GDP, or falling steadily towards that figure. For the Netherlands, the financial situation in 1997 was to determine whether or not it would be part of the initial group of countries to enter Stage Three of EMU. On May 3, 1998, the European Council decided to accept eleven countries, including the Netherlands, into the third stage of EMU that would start on January 1, 1999.

With the start of the third stage of Economic and Monetary Union, the Stability and Growth Pact came into force. The pact attached sanctions to crossing the same lines as set by the Convergence criterion on government finance (deficit below 3% GDP / debt below 60% GDP), except when the breach is exceptional or temporary. However, the Member

States are required to keep to the "*medium term objective of budgetary positions of close to balance or in surplus*" (Council of the European Union, 1997).

Summing up, with membership of the Economic and Monetary Union come a number of preconditions. As a result, Member States are no longer entirely free in setting their budgets.

7.3 Changes in Dutch Budgeting

The developments in Dutch budgeting are sketched in chapter 5. The most important changes have been the switch to trend-based budgetary policy which was introduced in 1994, and the introduction of performance budgeting in the form of the VBTB programme.

The most important characteristics of the trend-based budgetary policy are cautious macro economic assumptions, an expenditure maximum, rigid rules for budgetary discipline including strict separation of expenditure an income sides of the budget, a deficit maximum, and one main moment of decision (Studiegroep Begrotingsruimte, 1997, p. 17). VBTB restructured the budget into policies, introduced performance criteria and added a new date to the budgetary calendar.

In short, more rules have been created, leaving less discretion for political actors. Political choices are limited to multi-year plans in the form or coalition agreements, and as much as possible of the changes that would have to be made mid-term are covered by automatic mechanisms (windfall/setback formula; automatic stabilizers; signal values). Small changes are made to these mechanisms throughout the years to ensure they worked as intended (further eliminating the need for interference), in a process that may be understood as experiential learning (Olsen, 2002, p. 932; see also section 3.3).

By capturing more and more decisions into automatic rules, political actors are sidetracked. Real choices are made (ideally) only once every four years, at the start of a cabinet term. Ministers become more like managers, since their budget for the entire term is predetermined (Hallerberg & Bridwell, 2008, p. 75)

7.4 Factors contributing to changes in Dutch Budgeting

The analysis of sources in chapter 7 showed that the changes made to the Dutch budgeting system during the period studied, were heavily influenced by the Economic and Monetary Union, specifically by the need (and desire) to comply with the Convergence Criteria and subsequent Stability and Growth Pact. Especially in the latter half of the years under review, belief in the sound money and finance paradigm (Dyson, 2002, p. 6) becomes more important than merely adhering to the European rules: it is stressed time and again that besides the need to avoid the Excessive Deficit Procedure, there is the higher goal of ensuring the country is prepared for the expenses of its aging population.

Obviously I cannot prove that this belief in sound finances is a direct result of membership in the Economic and Monetary Union. And of course budgetary discipline is not new to the Netherlands either (see sections 5.3.1, 5.3.2)—though ambitions were never quite as high as 'close to balance or in surplus', but they are now. Seeing as this is a result widely predicted in Europeanization theory (see chapter 3), I for now presume the EMU has at least a partial influence in these newfound ambitious objectives.

I was not able to find a direct link between the other big change in Dutch budgetary institutions, namely the VBTB and accrual accounting efforts. In the documentation put out by the Dutch government on these changes, there was no mention of either the Economic and Monetary Union or Stability and Growth Pact. These programmes are part of a global trend which has seen growing numbers of countries adopt similar schemes. The decision by the Dutch government to follow this trend may have been influenced by a growing belief in what is referred to 'sound finances', spurred on by EMU membership, but my research design of document analysis is unable to unearth such underlying motivations.

The period studied also saw political and economic changes, though I believe these changes to have had little impact on the decisions made on budgetary practices. Although a more progressive coalition took office in 1994 and subsequently introduced the trend-based budgeting policy, these changes were made at the recommendation of an independent advisory body (the Study Group on the Budget Margin), and were widely supported in parliament, by coalition and opposition parties alike. Also the thriving economy of the second half of the 1990s aided rather than influenced choices, as it meant that the new budgeting practices were not immediately thwarted by setbacks.

7.5 Summing up

I have observed a substantial influence of membership of the Economic and Monetary Union on Dutch budgeting institutions, especially through the Convergence Criteria and Stability and Growth Pact. The Study Group on the Budget Margin even refers to the SGP as Dutch budgeting's guiding principle (Studiegroep Begrotingsruimte, 1997, p. 31).

This influence follows two paths: one of direct (line «a» in Figure 8.1 below; eg, limits in SGP are translated to signal values) and one of indirect influence, via the growing believe in the 'sound finance' paradigm (Dyson, 1994, 2002, p. 6; Wessels & Linsenmann, 2002, p. 68), represented by line «b». In this second path, it is the 'sound finance' paradigm which *"has entered the economic beliefs of national policy-makers as a 'collective identity'"* (Wessels & Linsenmann, 2002, p. 68), and this belief then has its impact on other policy initiatives, which in turn influence the way the Dutch government budgets. As said in the previous section, I cannot prove this believe in sound finances is a direct result of EMU membership (the first section of line «b»), I only observe that it is a type of influence by the EMU cited in Europeanization theory, and that I have indeed found an increased believe in the paradigm. One very clear example of the other policies is the issue of the ageing populations and the preparations made to anticipate its future effects, which the Dutch government invariable links to the need for a sustainable budget (and thus to comply with the Stability and Growth Pact; see also section 6.1.2), but there may well be other programmes that are influenced in this way.

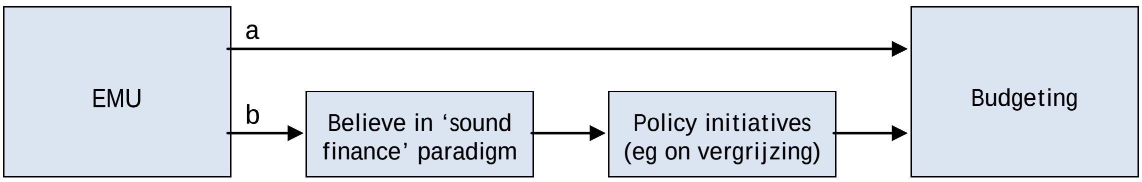

Figure 7.1 Two paths of influence

As Olsen writes, the rate of adaptation to European institutions is dependent on the availability on the national level of routines that 'fit' (J. G. March & Olsen, 1989, p. 35; cited in: Olsen, 2002, p. 933; see also section 3.3.1). The Netherlands seems to have found a fit. The new trend-based budgeting system was not radically different from what was used before. Even though changes will have felt profound to the Dutch government, when viewed on a European scale, the changes were minimal (ie, when compared along with budgeting in other countries, the Dutch trend-based budgeting and its structural predecessor still resemble one another far more than budgeting in any other country).

A lot more rules were created[37], and then refined through experiential learning (Olsen, 2002, p. 932; see also section 3.3) to eliminate more and more political decisions at times when projections are not met and adjustments need to be made. Spending limits, and rules on how to act when these are crossed, are as such also not new to Dutch budgeting. However, the trend-based budgeting system focuses on limiting political decisions to the coalition agreement as much as possible. *"Ministers then effectively become managers of ministries that already have their spending mandates predetermined,"* Hallerberg and Bridwell (2008, p. 75; see also section 3.4.2) write about such types of arrangements, what they refer to as the contracts approach (cf. von Hagen et al., 2001; Hallerberg, 2004; Hallerberg et al., 2004).

With these new budgetary arrangements, power shifts between budgetary actors. The actors involved in drawing up the multi-annual plans (coalition agreement) gain in power at the expense of the spending ministers. Also the balance between politics and administration shifts, as budgetary adjustments between multi-annual plans are—wherever possible—taken out of the hands of politicians and prescribed by a set of fiscal discipline rules that are part of the multi-year agreement.

7.6 Recommendations

This thesis is primarily descriptive in nature: I describe which changes have taken place; I have not researched the relative effectiveness or performance of the different budgeting institutions that have been used throughout the years, nor have I focussed on the outcomes of alternative ways of budgeting. What I have observed is that the Dutch government has deemed it necessary to make certain changes throughout the years, and I have to assume that these changes were made to improve budgeting, and thus that the old rules which were displaced, were seen as lacking.

As said above, by the emphasis that is put on one main decision making moment, and strict rules to cope with shocks, it is not only the time of decision making that shifts, but also the power of the actors involved. Just as decisions are clustered in time rather than spread over the course of four years, so is the power clustered with a smaller group of actors. The actors that write the coalition agreement have become more powerful, at the expense of the actors involved in the implementation.

I agree with Von Hagen et al. (2001) that this is the best (or indeed only) way to enforce fiscal discipline in coalition governments such as the Netherlands': if every change during the course of the year has to be debated, budgeting becomes slow and unmanageable. I would even give under consideration the same recommendation made by the Study Group on the Budget Margin (1997) to add safeguards in the Government Accounts Act to make it practically impossible to run up the deficit or debt across the limits of the Stability and Growth Pact.

As the EMU is clearly valued in the Netherlands (or at least, in government circles), which was demonstrated in 2003 when the Stability and Growth Pact was under threat and the Dutch played a dominant role in its defence, it is important to lead by example. However, the recent financial crisis proved a shock beyond the absorption capabilities of any financial discipline rules, which is not surprising as not many will have foreseen such an extreme shock. But now that we have this experience, it is important to learn from it,

[37] This process could be taken further still: the Study Group on Budget Margin recommends amending the Government Accounts Act to guarantee it becomes impossible to cross the 3% deficit norm of the Stability and Growth Pact (see Studiegroep Begrotingsruimte, 1997, p. 79 and section 7.1.1).

and try to devise a contingency plan should a similar extreme shock (or one on a smaller scale) occur in the future.

However, it is also important not to forget the flip side: budgetary rules and norms are never neutral, any by condensing the political decisions into the coalition agreement, this can raise legitimacy issues. Therefore it is important for all actors involved in budgeting—not in the least for those who can find themselves sidetracked—to realise any changes to budgetary institutions can have far-reaching implications, and should never be dismissed as a mere technical matter.

7.7 Evaluation & Prospects for future research

In section 1.4.1 I described my reasons for relying mostly on official documents as sources of data for this thesis. During the various expert interviews I conducted during my internship at the Ministry for Finance I quickly learned that the old adage *"Where one stands depends on where one sits"* is also true in this context. Those interviewees that worked at directions implementing European policies told me that of course the European Union and Economic and Monetary Union were the main driving force in altering Dutch budgetary institutions: Dutch budgetary practice was—according to them—a direct translation of European rules. However, those whose attention was more on the national level told me that this was not the case at all, and that the changes that were made to Dutch budgetary institutions were simply a matter of good policy and would have happened irrespective to European influences. These conflicting answers and viewpoints surprised me and made me conclude to take 'the official truth' of the budget memoranda as the main data source for my research. After all, everyone has his own perspective on events, his own interests, but in the end it is only the officially sanctioned version of history that counts.

Now, after my analysis of these documents, I think that the difference in answers from my interviewees may be explained by looking at the two paths of influence I have observed (see Figure 8.1). While some saw line «a», others had incorporated the sound finance paradigm so fully that they only saw the latter half of line «b». With this (as of yet unconfirmed) knowledge, it would be very interesting to conduct a more detailed study of motivations and rationales of those working at reforming Dutch budgetary institutions, and not focus so much on changing rules and procedures but rather on changing minds, on the underlying logic and assumptions—but of course the problem remains that one cannot read minds, and people only tell you what they want to tell you.

A second prospect for further research concerns the making and development of the EMU. For the scope of this thesis, I have regarded the EMU as a 'black box' from which rules and guidelines spring forth, but of course these rules and guidelines do not simply materialize out of thin air. They are the result of political processes, the product of negotiations. As noted in chapter 3, the actors shaping the EMU overlap with the actors shaping budgeting in the EMU countries (eg, the ECOFIN ministers): they are themselves responsible creating—at the European level—the rules they have to obey on the national level. While I now looked at the influence of the EMU on national budgeting in a simple independent / dependent variable tie, it would be interesting to view this relationship as a loop: after all, national budgeting experiences in turn have their impact on the EMU.

Another challenge concerns both Wildavsky's cultural theory on budgeting as well as the theories on the Europeanization of budgeting. As said in section 7.2.2, Wildavsky's theory did not show great predictive qualities. The changes in budgeting—and presumably in culture—were simply too small to register. However, this does not mean that I am willing to write off this model just yet, but I think that it (as for example also Brendan Swedlow

(2001) writes) should be developed further as Wildavsky left us with a very interesting but unfortunately still quite rudimentary theory. I would be very interested to see if a EMU-wide comparative study, or a study of a number of EMU countries, can show more results which could be used to improve the theory.

I agree with Olsen (2002) that the myriad of studies on Europeanization is at best confusing and at worst ‘so unwieldy that it is futile to use it as an organizing concept’. One term encompassing so many different concepts does not contribute to the understanding of any of the different developments it covers.

Still, the theory on Europeanization was very helpful in understanding and answering my research questions. Especially the concept of ‘goodness of fit’ as a prerequisite for adaptation (Dyson, 2008a; Featherstone, 2003; Olsen, 2002), and von Hagen and Hallerberg’s delegation and contacts states have proven useful.

I believe that using such approaches can help narrowing down the definition of Europeanization and make it more than just a mere container. Again, an EMU-wide study using and further developing the concepts used in this study would be very interesting.

And last but not least: in recent months the Stability and Growth Pact has been subjected to its most serious test to date. The financial crisis has put strain on even the most prudent government’s budget. Preliminary analysis by The Economist (2009) suggests the EMU has proven itself more resilient than some may have expected. Lessons from this test could help to ensure its lasting success.

Appendices

A1. Interviews and other verbal sources

Name	*Position and expertise*	*Date and nature*
Bette, drs. A.J.	Treasury Directorate-General, Foreign Financial Relations Directorate (BFB)	26 March 2001, informal meeting 02 May 2001, interview
Borstlap, drs. E.G.C.	Budgetary Affairs Directorate, Section for Budgetary Policy	March – July 2001, various informal discussions
Draaisma, drs. A.J.J.	Treasury Directorate-General, Foreign Financial Relations Directorate (BFB), section International Monetary Affairs	26 June 2001, interview
Glee, drs. J. de	Budgetary Affairs Directorate, Section for Budgetary Policy	March – July 2001, various informal discussions
Hogendoorn, drs. A.C.	Budgetary Affairs Directorate, Section for Budgetary Policy	March – July 2001, various informal discussions
Kok, drs. L.H.	Director of Budgetary Affairs Directorate, Directorate-General of the Budget	March – July 2001, various informal discussions
Leyten, drs. M.R.	Head of Section for Budgetary Policy, Budgetary Affairs Directorate; deputy director for Budgetary Affairs	March – July 2001, various informal discussions
Pruissen, drs. G.A.P. van	Deputy head and senior policy advisor, Macro Economic Policy and Labour Relations, Ministry of Heath, Welfare and Sport	28 June 2001, interview
Schuerman, drs. P.E.M.W.	Budgetary Affairs Directorate, Section for Budgetary Policy (international and EMU-expert)	March – July 2001, various informal discussions
Sweers, drs. P.M.	Deputy Head of Section for Budgetary Policy, Budgetary Affairs Directorate; secretary for the Study Group on the Budgetary Margin	March – July 2001, various informal discussions
Vossers, drs. W.J.	Deputy Director Tax Policy Directorate (AFP), Directorate-General for Tax and Customs Policy and Legislation, and former head of Budgetary Policy	26 June 2001, interview
Weijden, drs. R.P. ter	Budgetary Affairs Directorate, Section for Budgetary Policy	March – July 2001, various informal discussions
Zwerk, drs. R.D.	Budgetary Affairs Directorate, Section for Budgetary Policy	March – July 2001, various informal discussions

A2. Timeline of European Monetary Integration[38]

1946

Winston Churchill's 'United States of Europe' **speech** delivered at the University of Zurich.

1950

May **Schuman Declaration** presenting Jean Monnet's plan for the unification of key sectors of the French and German economies, and inviting the participation of other European nations.

1952

July **European Coal and Steel Community (ECSC)** is established. Founded by the Treaty of Paris (1951), the ECSC developed a common market in the production, and trade, of coal and steel between its six member countries (Belgium, France, Germany, Italy, Luxembourg, and the Netherlands – known collectively as the Six).

1955

Messina Conference of the Six agrees to develop common institutions and gradually merge their economies.

1957

March **Treaty of Rome** is signed. The Treaty, which came into force on 1 January 1958, provided for the gradual development of a customs union between the six founding members of the ECSC involving a commitment to free trade between the countries concerned, together with common external tariff arrangements with the rest of the world. The Treaty established the **European Economic Community (EEC)** – a customs union, which became popularly known as the Common Market – and the **European Atomic Energy Community (Euratom)**.

1964

May **Committee of Central Bank Governors** of the member states of the EEC is formed.

1969

October **Barre Memorandum** explores the possibilities of intensifying monetary cooperation in Europe. December Community Heads of State and Government summit in The Hague agrees that a plan for economic and monetary union for the Six should be drawn up.

1970

Werner Report expressed an intention to achieve monetary integration in Europe through a single currency, or irrevocably fixed exchange rates, by 1980.

1971

Collapse of the **Bretton Woods System** of fixed exchange rates.

1972

'Snake' Fixed Exchange Rate System is introduced. The system entailed a set of bilateral bands limiting fluctuations between the currencies of the member states of the EEC.

1973

January **Membership of the three European Communities is enlarged from 6 to 9 countries** with the inclusion of Denmark, Ireland and the UK.

April **European Monetary Co-operation Fund** established.

1979

March **European Monetary System (EMS)** is instituted. The EMS sought to create a 'zone of monetary stability' in Europe via EEC members maintaining low and stable inflation rates and stable exchange rates against one another. The key feature of the EMS entailed the **exchange rate mechanism (ERM)**: a fixed, but adjustable, exchange rate initiative among participating member countries. Member countries maintained exchange rate fluctuations within a band 2.25 per cent above, and 2.25 per cent below, the official parities. Up to 1990, Italy used a wider band of fluctuation (± 6 per cent) – this wider band was also adopted by Spain (1989), the UK (1990) and Portugal (1992) when they joined the system.

1981

January **Membership of the three European Communities is enlarged from 9 to 10 countries** with the inclusion of Greece.

1986

January **Membership of the three European Communities is enlarged from 10 to 12 countries** with the inclusion of Spain and Portugal.

February The **Single European Act (SEA)** is signed. The SEA, which came into force on 1 July 1987, sought to develop the EEC from a customs union into a 'single' common market by providing for the free internal movement of capital, labour, goods and services by the end of 1992. The SEA also expressed an ambition for the revival of plans for a European single currency.

1987

September **Basle-Nyborg Agreement** is signed. The agreement greatly strengthened the resources that participating members of the ERM could deploy in defence of agreed exchange rate parities.

[38] Adapted from Mulhearn (2008)

1989

Delors Report is published. The Delors Committee was set up by the European Council in 1988 to study and propose concrete stages leading towards economic and monetary union (EMU).

June — **European Council** agrees on the realization of EMU in three stages.

1990

July — **Stage one of EMU** begins.

December — **Intergovernmental Conference** is launched to prepare for stages two and three of EMU.

1992

February — **Treaty on European Union (TEU)**, also known as the **Maastricht Treaty**, is signed. The Treaty, which came into force on 1 November 1993, created the European Union (EU) consisting of three pillars: the European Communities (ECSC, EEC and the Euratom – the EEC was renamed the European Community); a common foreign and security policy (CFSP); and police and judicial cooperation in the fields of justice and home affairs (JHA).
The Treaty established that the second stage of EMU would begin on 1 January 1994 with the establishment of the European Monetary Institute (EMI). It also confirmed that the final stage of EMU would begin *no later than* 1 January 1999 with the launch of a single currency and the establishment of a central European bank, and identified the 'convergence criteria' to be satisfied before the then-15 individual member states of the EU would become eligible to join the then un-named single currency.

September — First wave of **ERM crises**. Prompted by the inflationary implications of German reunification in 1990, the 1992 crisis witnessed the suspension of sterling's and the lira's membership of the ERM.

1993

August — The **ERM** is 'effectively' **abandoned**. Following the decision of the European Union Council of Economics and Finance Ministers (ECOFIN) to widen the band of exchange rate fluctuation from ± 2.25 per cent to ± 15 per cent, the ERM was transformed from a fixed, but adjustable, exchange rate regime (with a maximum range of exchange rate fluctuation of 4.5 per cent for the majority of participating countries), to a quasi-flexible exchange rate regime (with a maximum range of exchange rate fluctuation of 30 per cent).

1994

January — **Stage two of EMU** begins and the **European Monetary Institute** (the forerunner of the European Central Bank) is established.

1995

January — **Membership of the EU is enlarged from 12 to 15 countries** with the inclusion of Austria, Finland and Sweden.

December — **Madrid European Council** meeting. The meeting agreed further details for the third and final stage of EMU, which would begin on 1 January 1999. Decision made to call the new single currency the euro.

1997

June / July — **Stability and Growth Pact (SGP)** agreed by the European Council. The SGP effectively rolled forward greed (at Maastricht) limits on the deficits and debts of participating countries in order to ensure continuing fiscal prudence after the introduction of the euro.

October — **Treaty of Amsterdam** is signed. The Treaty, which came into force on 1 May 1999, amended both the Treaty establishing the European Community and the TEU.

1998

June — **European Central Bank (ECB)** and the **European System of Central Banks (ESCB)** are established. Membership of the ESCB consisted of the national central banks (NCBs) of the then- 15 EU member states.

1999

1 January — **Stage three of EMU** begins. The euro becomes the single currency of the euro area; 11 EU member states (Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain) who satisfied the Maastricht criteria and who wished to participate in full European monetary union commenced the irrevocable fixing of their exchange rates to the euro; the ERM ceased to exist and **ERM II established**; the ECB assumes responsibility for a single monetary policy in the euro area.

2001

1 January — **Euro area enlarged from 11 to 12 countries** when Greece enters the third and final stage of EMU and becomes the 12th EU member state to adopt the euro.

February — **Treaty of Nice** is signed. The Treaty, which came into force on 1 February 2003, amended both the Treaty establishing the European Community and the TEU and paved the way for EU enlargement.

2002

1 January **Euro coins** and **banknotes** are introduced in 12 EU member states.

End February The **euro** becomes the **sole legal tender** in the euro area.

2003

November The **SGP** falls into **disarray**.

2004

May **Membership of the EU is enlarged from 15 to 25 countries** with the inclusion of Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia; **membership of the ESCB is enlarged from 15 to 25 NCBs**: inclusion of the NCBs of 10 new EU member states.

October Treaty establishing a **Constitution for Europe** is signed and came into force on 1 November 2006.

2005

July **Revised SGP** comes into force.

2006

Lithuania's application for euro-area membership narrowly rejected on the inflation criterion.

2007

1 January **Euro area enlarged from 12 to 13 countries** when Slovenia adopts the euro.

January **Membership of the EU is enlarged from 25 to 27 countries** with the inclusion of Bulgaria and Romania; **membership of the ESCB is enlarged from 25 to 27 NCBs**: inclusion of the NCBs of two new member states.

2008

1 January **Euro area enlarged from 13 to 15 countries** when Malta and Cyprus adopt the euro.

2009

1 January **Euro area enlarged from 15 to 16 countries** when Slovakia adopts the euro.

A3. EMU: Key indicators

EMU Debt % of GDP (source: Eurostat)

geo/time	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
AT	68.3	68.3	64.4	64.8	67.2	66.5	67.1	66.5	65.5	64.8	63.7	62.0	59.4	62.5
BE	129.8	127.0	122.3	117.1	113.6	107.8	106.5	103.5	98.7	94.4	92.2	87.9	84.0	89.6
DE	55.6	58.4	59.7	60.3	60.9	59.7	58.8	60.3	63.8	65.6	67.8	67.6	65.1	65.9
ES	63.3	67.4	66.1	64.1	62.3	59.3	55.5	52.5	48.7	46.2	43.0	39.6	36.2	39.5
FI	56.7	56.9	53.8	48.2	45.5	43.8	42.3	41.3	44.4	44.2	41.4	39.2	35.1	33.4
FR	55.5	58.0	59.2	59.4	58.9	57.3	56.9	58.8	62.9	64.9	66.4	63.7	63.8	68.1
GR	108.7	111.3	108.2	105.8	105.2	103.4	103.7	101.7	98.0	98.6	98.8	95.9	94.8	97.6
IE	82.1	73.5	64.3	53.6	48.5	37.8	35.5	32.2	31.1	29.7	27.5	24.9	25.0	43.2
IT	121.5	120.9	118.1	114.9	113.7	109.2	108.8	105.7	104.4	103.8	105.8	106.5	103.5	105.8
LU	7.4	7.4	7.4	7.1	6.4	6.2	6.3	6.3	6.1	6.3	6.1	6.7	6.9	14.7
NL	76.1	74.1	68.2	65.7	61.1	53.8	50.7	50.5	52.0	52.4	51.8	47.4	45.6	58.2

EMU Surplus/Deficit % of GDP (source: Eurostat)

geo/time	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
AT	-5.8	-4.0	-1.8	-2.4	-2.3	-1.7	0.0	-0.7	-1.4	-4.4	-1.6	-1.6	-0.5	-0.4
BE	-4.5	-3.9	-2.2	-0.9	-0.6	0.0	0.5	0.0	-0.1	-0.3	-2.7	0.3	-0.2	-1.2
DE	n/a	-3.3	-2.6	-2.2	-1.5	1.3	-2.8	-3.7	-4.0	-3.8	-3.3	-1.5	-0.2	-0.1
ES	-6.5	-4.8	-3.4	-3.2	-1.4	-1.0	-0.6	-0.5	-0.2	-0.3	1.0	2.0	2.2	-3.8
FI	-6.2	-3.5	-1.3	1.6	1.6	6.9	5.0	4.1	2.6	2.4	2.8	4.0	5.2	4.2
FR	-5.5	-4.0	-3.3	-2.6	-1.8	-1.5	-1.5	-3.1	-4.1	-3.6	-2.9	-2.3	-2.7	-3.4
GR	n/a	n/a	n/a	n/a	n/a	-3.7	-4.5	-4.8	-5.7	-7.5	-5.1	-2.8	-3.6	-5.0
IE	-2.1	-0.1	1.1	2.4	2.7	4.8	0.9	-0.4	0.4	1.4	1.7	3.0	0.2	-7.1
IT	-7.4	-7.0	-2.7	-2.8	-1.7	-0.8	-3.1	-2.9	-3.5	-3.5	-4.3	-3.3	-1.5	-2.7
LU	2.4	1.2	3.7	3.4	3.4	6.0	6.1	2.1	0.5	-1.1	0.0	1.4	3.6	2.6
NL	n/a	-1.9	-1.2	-0.9	0.4	2.0	-0.2	-2.1	-3.1	-1.7	-0.3	0.6	0.3	1.0

A4. Budget Calendar[39]

	t-1: *Preparation & debate*	t: *Implementation*	t+1: *Reporting*
Jan			
Feb	• Provisional Account t-2	• Provisional Account t-1	• Provisional Account t
Mar	• Framework letter for t	• Framework letter for t+1	• Framework letter for t+2
Apr	• Central Economic Plan on t-1	• Central Economic Plan on t	• Central Economic Plan on t+1
May	• Spring Financial Report for t • Annual Financial Report on t-2	• Spring Financial Report for t+1 • Annual Financial Report on t-1	• Spring Financial Report for t+2 • Annual Financial Report on t
Jun			
Jul			
Aug			
Sep	• Macro-economic forecast for t • Budget Memorandum for t • Budgets for t	• Macro-economic forecast for t+1 • Budget Memorandum for t+1 • Budgets for t+1	• Macro-economic forecast for t+2 • Budget Memorandum for t+2 • Budgets for t+2
Oct	• Parliamentary Debate of Budgets for t	• Parliamentary Debate of Budgets for t+1	• Parliamentary Debate of Budgets for t+2
Nov	• Parliamentary Debate of Budgets for t • Autumn financial Report on t-1	• Parliamentary Debate of Budgets for t+1 • Autumn financial Report on t	• Parliamentary Debate of Budgets for t+2 • Autumn financial Report on t+1
Dec	• Parliamentary Debate of Budgets for t	• Parliamentary Debate of Budgets for t+1	• Parliamentary Debate of Budgets for t+2

[39] Adapted from *THE BUDGETARY POLICY OF THE SECOND KOK GOVERNMENT* (Ministerie van Financiën, 2000b, p. 32)

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