

4

Two-Track Processes: Budgeting, Auditing, and Evaluation in the Federal Republic of Germany

Hans-Ulrich Derlien

Previous research has revealed that evaluation has been closely linked to innovations in the budgetary process at least in some countries (Rist 1990). A broader scope is adopted here by looking at evaluation as only one albeit important element in the system of budgeting and auditing. To what extent, for example, do evaluations of programs, which are frequently quite costly, affect the state budget and how does evaluation fit in with more traditional monitoring mechanisms like auditing and accounting? Although it has already been indicated (Derlien 1990a) that budget law has been a complementary factor in institutionalizing evaluation in Germany and that the link between budgeting and evaluation is a feasible one, this paper takes up the subject again, this time from a systems perspective.

The paper has four sections. First, the relevant terminology used in Germany is explicated and basic organizational traits of the budgeting and auditing system at the level of federal government are described. Since the broader policy making system in Bonn does not systematically integrate programmatic policy making and budgeting (i.e., it is “two-track”), it is no surprise that evaluation is linked primarily to program development, while financial auditing is predominantly a phase in the budgetary cycle. Second, the paper investigates the historical development of the budgetary system and the role of financial auditing. Budgeting and accounting practices have developed over a period of 250 years to

serve a number of functions. Among these the program function of the budget was institutionalized only in 1969, whereas most of the norms determining the system were devised to serve parliamentary control functions that were gradually imposed on the management function budgeting and auditing served in the monarchic state. This might explain the peculiar role the German Federal Court of Audit plays in auditing budget operations. Third, the paper analyzes the selective criteria according to which this institution, which has its roots in the absolutist state, operates today. The final section summarizes the findings by asking, from a systemic perspective, why evaluation is not more firmly linked to budgeting in the Federal Republic of Germany (FRG).

Elements of the System

Conceptualizing budgeting, auditing and evaluation as systematically interrelated is facilitated by adopting a cybernetic model. In this model budgeting corresponds to the planning phase and, after the implementation of the (annual) budget has been completed, accounts are drawn up and information fed back to the planning/budgeting phase through mechanisms that are customarily termed "auditing" or "monitoring". Accounting and evaluation, but also audits focussing on conformity with budgetary law, are among the most customary of these feedback mechanisms. However, the practical terminology in the various countries might differ from these general terms and translating the terminology from German into English loses some of the meaning. It seems appropriate, therefore, to clarify the national terminology, and thereby some of the implicit philosophy, before turning to the central actors and their role in the budget cycle.

Terminology

There are various words used in German for the English "budget". As well as "Budget", "Etat" and "Haushalt" (literally household) are customary. The *budget* is usually defined as a periodic, detailed and systematic compilation of estimated revenues and planned expenditures of a public corporation, which to a certain extent is binding for the operations of the state organs. The words "detailed" and "systematic" refer to the requirement that budget items be quantitatively and qualitatively (by

denominating their purpose) specified and put together in the budget according to certain principles, for instance according to institutional responsibilities or programmatic coherence. The definition, furthermore, implies that the budget is formally legislated, and therefore binding, and that this has to happen in certain intervals, usually annually (but as in the case of Bavaria this may be biannually). Apart from the annual budget, the government has, since 1967, also prepared annually a five-year financial plan. This is basically a projection of the current budget with little determining power for next year's budget (Nachtkamp 1976, Wille 1977); it is also less detailed than the annual budget and submitted to Parliament only for informational purposes.

The mechanism corresponding to *auditing* is in German "Rechnungsprüfung" (literally: checking accounts). Like the English word "auditing", the German expression refers to financial matters, but is confined to formal aspects. Substantive financial checkups are termed "Finanzkontrolle" (Zavelberg 1990). As a theoretical term, auditing applies also to checking and communicating results of public activities that would not necessarily imply financial operations. Another way of stating this peculiar selectivity of auditing when limited to financial operations would be to outline the objects and criteria of auditing (see below). Financial auditing presupposes *accounting* (Rechnungslegung). Again, it is significant whether the accounting categories are restricted to financial operations or include outputs or even impacts.

The German word for *evaluation* is "Erfolgskontrolle", although the term "program evaluation" is gaining ground in German. Recently the relationship between auditing and evaluation has been discussed (Rürup & Färber 1985; Blasius 1989), indicating that evaluation has developed in a context different from budgeting and auditing. While evaluation is primarily related to program development and its institutionalization was brought about in the process of expanding state intervention programs in the late 1960s, auditing is tied to budgeting. Also, the federal government never really attempted to apply a system of integrated budgeting, connecting program development and financial planning in a systematic way. Thus, decision making in Bonn follows a *two-track* system.

This does not mean that there is no political relationship between a government's program and its budget. Political considerations enter the financial middle-range plan and the annual budget through politics on all levels of decision making. For instance, empirical evidence (Treiber

1984) proves that incoming governments will affect the budgetary base, i.e., those allocations that are continued from one budget year into the next without critical questioning; also, political exigencies may drive a government to draft an extraordinary budget (Nachtragshaushalt) during the fiscal year or exceed established budget limits in urgent and unforeseen situations. In response to the reunification of Germany, five supplementary budgets were legislated in 1990. The political rationale of this procedure is that items which years ago have entered the budget through politics may continue to claim political legitimacy unless questioned. Thus, traditional budgeting is politico-logical and therefore subjected to rationalist criticisms and confronted with reform models that ultimately aim at an integrated system of policy planning and budgeting, in which all budget items are deduced from national goals or explicit policy priorities.

In principle, evaluation could be related to budgeting, if the finance ministry in preparing the annual budget requested evaluation studies from the departments. This, however, is almost never done. The incongruency between auditing and evaluation observable in Bonn does not originate from the two-track system as such, but has theoretical reasons, too, because the concept of evaluation is not limited to financial programs; in fact, evaluation is often concerned with regulatory policy without financial implications.

Central Actors in the Budget Cycle

Drafting the budget is an executive matter. It is the *Ministry of Finance* and its budget division that is in control of all informational sources and operations involved in preparing the annual budget. On the request of the finance ministry, the individual departments submit budget proposals. In asking for budget proposals (Haushaltsvoranschläge) in December of each budget year, the Ministry of Finance issues guidelines, which are based on previous discussions within various commissions preparing revenue estimates, economic forecasts and coordinating federal and state fiscal policies. In spite of the guidelines, the sum of the departmental budget proposals, as in most other countries, regularly exceeds the estimated revenues. Consequently, the Ministry of Finance negotiates with the ministries, occasionally ending in the Cabinet. Here the finance minister is in a strong position rooted in paragraph 26 of the Procedural

Code (Geschäftsordnung), which states that he can only be overruled by the Cabinet if the chancellor does not back him.

What is submitted to Parliament for legislation is a draft in which 8000 budget items are classified in a threefold way. The coding, on which electronic data processing relies when systematic aggregates are produced and attached to the budget, is functional, macroeconomic and institutional. The functional classification, introduced in 1957, involves nine traditional and nonprogram delineations of the policy area. The macro-economic classification, developed in 1969, follows the logic of national accounting and, apart from distinguishing three types of revenues, differentiates six categories of expenditures with special emphasis on different types of investments. However, the most important, and historically oldest, classification is the institutional system, which follows departmental jurisdictions. A departmental budget (Einzelplan) is composed of chapters (Kapitel), of which the first contains all expenditures (for instance salaries) consumed or invested (buildings) in the department itself.

The institutional classification is powerful because it reflects the communication patterns between the budget division of the finance ministry, which is internally differentiated according to ministerial budgets, and the departments. The same pattern is repeated in the *parliamentary budget committee* (Haushaltsausschu), which is the main actor during the appropriation process. While the policy committees of Parliament are almost completely excluded from the working of the budget committee, thus deflecting political and programmatic considerations, the individual reporters (Berichterstatter) of the latter are specialized in departmental budgets (Sturm 1988). Whereas the plenary discussions of the Bundestag, which basically serve party political publicity functions, do not substantially affect the shape of the budget, the budget committee is the central actor in the parliamentary phase. However, it rarely changes the government's budget proposal by any significant amount. Even here it is impossible to disentangle genuine parliamentary influence from government suggestions to improve the budget draft since, when it has reached Parliament in September before the financial year, premises are likely to be outdated for exogenous reasons.

During the implementation phase the focus of activity shifts toward the spending departments, although the Ministry of Finance is in a position to control the spending process through regulations and with-

holding consent to certain spending items. This requirement of consent (*Haushaltssperre*) is legislated for, in part, for specific spending categories, or can be imposed at the discretion of the Ministry. At the end of the fiscal year the executive, through the Ministry, prepares a complicated system of accounts (*Rechnungslegung*) submitted to the *accounts committee* of the Bundestag, which is a subcommittee of the budget committee, and to the Federal Court of Audit. This is the primary basis of auditing (*Prüfung*) by the *Federal Court of Audit* (*Bundesrechnungshof*; BRH). As every postwar federal government was discharged by Parliament, it is the BRH that dominates this final phase of the budgetary cycle. Until 1969 the BRH reported exclusively to the government, which reflected the executive bias derived from its absolutist origins; since the 1969 budgetary reform the BRH reports simultaneously to Parliament and the government, and in 1985 the balance was redrawn again by having the president of the BRH elected by parliament instead of having him appointed by government. The auditing report prepared by the BRH is published in parliamentary proceedings and a shortened version handed out to the press which publishes it widely. It is only through this publicity that the Federal Court of Audit has some effect on future government planning and budgeting, because it has no formal sanctioning power of its own. However, the influence of the auditors is not limited to ex-post auditing, but extends to concomitant auditing, which takes the form of advice during budget preparation. Furthermore, in each ministry there is an extension of the Federal Court of Audit (*Vorprüfstelle*), which on a sampling basis carries out some financial auditing during the fiscal year. What the Federal Court of Audit does not engage in, however, is evaluation beyond traditional conformity and financial auditing. The auditing criteria will be analyzed in more detail below.

According to German public law, the budgetary system (including auditing) is highly formalized. The constitution itself contains important rules (Art. 109 ff.) for determining budget principles and budgetary legislation since 1967. Article 109, for example, has required the federal government to promote economic equilibrium, and entitles the Bundestag to legislate common budgetary principles for the federation and states. The position of the Federal Court of Audit is laid down in Art. 114 and will be dealt with below.

The procedures of budgeting and auditing are laid down in the Federal Budgetary Code (*Bundeshaushaltsordnung* of 1969). Evaluation became

only indirectly institutionalized, when the Ministry of Finance issued an administrative regulation in 1973, which interpreted Section 7 Federal Budgetary Code, concerning cost-benefit analysis, in such a way as to include also ex-post analysis. As the departments have to submit cost-benefit analyses for “important measures” if requested by the Ministry, the administrative regulation of 1973 also puts the Ministry in a position to request evaluation studies. However, the ministry seldom does this for political reasons, and the BRH recently criticized this deviation (Bundesrechnungshof 1991, 43 f.).

Historical Developments of the Present Budgeting and Auditing System

Today’s textbooks ascribe five normative functions to public budgeting, which may serve us here as a heuristic tool to understand the historical evolution of the present budgetary system (Rürup & Körner 1981, 40).

The *program function* emphasizes that the budget should refer to public tasks and should reflect the political program of government. This function was emphasized in the 1960s when it became apparent, that the state operates far beyond merely securing law and order, but intervenes in socio-economic structures and processes. The program function is underlined in the parliamentary budget debate, which as a rule turns out to be a general debate about government policy.

Second, a *macroeconomic policy function* can be attributed to the budget. Since the concept of Keynesian economic policy was adopted in Germany in the 1967 Law on Stability and Growth of Economy, the state has been obliged to keep macroeconomic processes under control and to tailor its budget according to the economic requirements.

Third, the *financial management function* stresses the input side of the budget and postulates that the budget should be concerned with the long-term financial consequences of government operations and with balancing revenues and expenditures.

Fourth, the budget serves a *parliamentary political control function*. It should enable parliament to judge government operations against the aims postulated in the budget and to make the government politically accountable for its macroeconomic policy and fiscal management, the political program behind the budget and its administrative guidance.

Finally, the budget fulfils an *administrative control function* for the government by programming the executive's operations during the budget year and by setting financial constraints for administrative activities.

Historically, these functions developed in reverse order, since the (absolutist) state with its administrative control needs developed prior to parliamentary democracy (Derlien 1987). Consequently, parliamentary budget rights had to be pushed through, *after* core executive institutions like the finance ministries and audit courts had been established.

The Absolutist State and the Administrative Control Function

In creating the absolutist state after the Thirty Years' War and the political neutralization of the estates, a standing army was established as one pillar of the modern state and a financial administration, the sitting army, as a second to secure its financing by levying taxes and carrying through mercantilist economic policy (Rosenberg 1958). In Prussia, permanent taxation became the rule at the beginning of the eighteenth century, when the Prussian state consisted of two administrative branches: the War Commission and the Domesne Chamber (fused in 1723). In 1689 the first budget was prepared to enable the ruler to control the (military) administration. Since 1713 Prussia practiced precise and periodic budgeting, and in 1714 the Prussian accounting chamber (Oberrechnungskammer), the forerunner of the present courts of audit in the federation and the states, was established.

Constitutional Monarchy and Political Control Function

During pre-constitutionalism (1815–1848) the estates achieved participatory rights in the various German territories, partly by influencing tax legislation, partly by co-determining the tasks for which specific taxes were levied, and, in other territories, by influencing the whole spectrum of state expenditures. In the course of the 1848 revolutions parliamentary budgetary rights were extended and codified. Since then, German tax legislation has been separated from annual budget legislation. Although parliamentary budgetary rights did not mean much in practice (the Prussian Prime Minister von Bismarck, after rejection of the military budget in the diet, ruled between 1862 and 1866 without legislated budgets), the budget gradually acquired a parliamentary control function.

In 1872, after the creation of the second German Reich, budgetary rights were also granted to the Reichstag, but because the Reich's budget was rather small and consisted overwhelmingly of military expenses, political influence was peripheral. Nevertheless, Prussian administrative budgetary techniques were adopted by the Reich administration owing to the close links between the prime minister and Reich chancellor.

Weimar Republic and Financial Management Function

After 1918, during the first German Republic, the existing administrative budgetary and auditing techniques were codified in the Reichshaushaltsordnung in 1922, which persisted until 1969. During the Weimar Republic, reparation payments, inflation and economic depression made financial management more important, and in 1927 the president of the then Reichs-Rechnungshof was installed Reichssparkommissar (commissioner for saving). The court of audit itself maintained its affiliation to the executive branch.

The budgetary principles developed by 1922 were strongly shaped by parliamentary control needs as reflected in the principles of annuality (instead of five year military budgets), publicity (no secret parts), and particularly the principles of comprehensiveness (no separate funds), and the temporal and material (aim) specification of items. Financial management needs, on the other hand, were dominant in the principles of balancing the budget, of gross accounting (displaying all cash flows) and of economy and efficiency.

Federal Republic and Economic Policy Function

During the Second Republic after 1949, the basic principles and structures of the state apparatus of the Weimar Republic were restored and the budgetary code of 1922, along with the constitutional norms referred to above, continued. Due to budget expansion and the undeniable impact of the state budget on economic performance, there was a pressing need to improve budgeting in order to make fiscal policy an instrument of macroeconomic policy. Thus, constitutional amendments of 1967 and 1969 created a unitary information base for the then 20,000 local government budgets, the eleven state budgets and the federal budget. This helped to coordinate the fiscal policies of the three layers and to tailor

the budget to the economic needs. The macroeconomic policy function was achieved technically by introducing the economic system of item classification for all public budgets. Furthermore, under the influence of integrated budgeting systems abroad (e.g., United States and France), theorists in Germany began to emphasize the program function of the budget. However, the functional classification never reached the level of sophistication required for a true program budget.

Assessment of Functionality

Although empirical research on the relative importance of the individual functions attributed to the budget is lacking, it can be argued that the economic management function is the most important for drafting the budget, followed by the financial management function. For the program function to become stronger, the technical prerequisites of an appropriate central policy planning system and a more sophisticated functional item classification are lacking. The administrative control function probably contributes to the persistence of the institutional budget classification. Since the parliamentary control function rests outside the executive, it hardly clashes with the other functions mentioned, more so because since 1969 the executive orientation of the Federal Court of Audit has become more favorable toward parliament. This has not meant, however, that the BRH has engaged in evaluation.

There has been no significant attempt to reform the budgetary system since 1969. It is indicative that neither Schick (1988) nor Caiden (1988) nor De Visscher (1989) mention any German budget innovation in their surveys. Consistent with the character of a two-track system, budgetary processes were hardly affected by government policies in the 1980s to de-bureaucratize and privatize public activities. In view of the massive public debt burden for restoring East Germany, fiscal management might even gain dominance in the future. So far, moreover, there is no overriding budget philosophy in Parliament (Sturm 1985). Established routines and pragmatism still prevail in budgetary Bonn. As we shall see, the same applies to auditing.

Court of Audit and Auditing Practice

The position of audit offices vis à vis the Cabinet and Parliament has been of utmost importance in the development of evaluation systems in

Europe and the United States (Derlien 1990b). This section deals with the constitutional position of the German Federal Court of Audit (BRH), its functions and its auditing practice. From this discussion, and the ruling doctrine of auditing, we may obtain an additional explanation of the separation of auditing and evaluation in Germany.

Position of the Auditing Office

The earlier historical account indicated a gradual reorientation of the central auditing institution from the executive in favor of parliamentary affiliation (Wittrock 1986). This process links up with the functional differentiation of auditing in a more restricted backward-oriented sense and of giving advice for future decisions of budget makers.

Historical reorientation. As the BRH is historically rooted in the absolutist bureaucracy, it is evident that it first served an administrative control function for the ruler. Since its inception in 1713, in Prussia it functioned independently of the bureaucratic structure and was used by the king to fight corruption and to improve the budget by learning from previous budget implementation. From its inception the institution obviously contributed to a rudimentary separation of powers, at least in the executive branch. Unlike the Prussian constitution of 1850, the 1871 and 1919 Reich constitutions did not guarantee the existence of an audit office, but merely stated the obligation of the finance minister to lay the accounts. The exact position of the audit office, appointment power and communication lines, thus, had to be defined in special legislation. Parliaments after 1848 pressed toward parliamentary affiliation in order to execute fully their newly gained budget rights, while the monarch and, later on, the executive branch adhered to its executive orientation.

In 1872 the Prussian diet passed a law, which secured only independence and the principle of collegial decision making, but sacrificed the obligation to report to the diet. The same pattern was repeated at the Reich level, although Prussian members of Parliament claimed more parliamentary access to the information stored in the audit office. The reorientation of the supreme audit institution did not take place until the Weimar Republic; in 1922 the Court of Audit was allowed to produce reports on request of the Reichstag and was given the authority to ask the government to pass on its regular reports to the Reichstag. In general, though,

the political distance between the Court of Audit and the Reichstag was great.

After 1949, it was again a parliamentary initiative that induced the reorientation of the audit office toward Parliament in the budgetary reforms of 1969. The constitution now rules that the BRH has the obligation to report simultaneously to the federal government and Bundestag (as well as to the Bundesrat, the federal chamber). When in 1985 the Federal-Court-of-Audit-Law was amended, Parliament underlined the reporting function and in addition took the right to appoint the president of the Federal Court of Audit and its vice president. Previously, the presidents were appointed by the federal president on request of the federal government; the BRH presidents were regularly former state secretaries.

Differentiation of functions. Although in practice any auditing report serves as a basis to improve future decisions, it makes a difference to the influence of the audit office whether this advisory function is implicit or explicit. The 1969 budget code entitled the BRH to add to its auditing report suggestions for future budgetary improvements. Besides this, it was empowered to give special advice on request of the Bundestag, Bundesrat and the federal government. In response, in 1970 the Cabinet decided to appoint the president of the Bundesrechnungshof ad personam Commissioner for Economy in Public Administration, thereby taking up the 1927 concept of Reich's Savings Commissioner. This decision was to establish a more personal, trusting relationship between the president and the government beside the advisory function of the court as such (Wittrock 1989). Thus, presently the BRH enjoys relative independence from the various branches of government and is regarded by some people as a fourth constitutional power. It has acquired a multifunctionality reaching from traditional legal and financial auditing to routine and personnel advisory functions.

Auditing Practice

Article 114, Section 2 of the constitution states that the BRH has the task to check the annual accounts prepared by the Ministry of Finance and to examine compliance with the standards of economy and regularity (Wirtschaftlichkeit und Ordnungsmäßigkeit). Auditing subjects are not only federal ministries, but also QUANGOS and QUAGOS and even

Länder administrations, if these implement federally financed legislation. It is also important to note that auditing does not take place only after the implementation of the annual budget, but accompanies budget implementation through preaudits. Furthermore, the BRH may interfere in current operations if it believes that new regulations affecting the budget are objectionable.

One way of classifying auditing practice in Germany is to distinguish between accounts auditing, administrative auditing and constitutional auditing. *Accounts auditing* (Rechnungskontrolle) concentrates on the annual partial and summary accounts prepared by the finance minister. Figures are checked as to their mathematical correctness, their consistency with receipts and their compliance with regulations for compiling accounts. The target of accounts auditing is the administrative office that produced the individual account.

Administrative auditing checks compliance with laws and regulations. Here, the main yardsticks are legality and the principle of economy (Wirtschaftlichkeit). This type of auditing is addressed to administrative decision makers with some degree of discretion and responsibility.

Constitutional auditing asks whether the political will of the legislature was fulfilled. Although the ensuing audit report is addressed to parliament (as well as the federal government and the federal chamber), this type of auditing is not regarded as a political matter. Even calling a budgetary behavior unconstitutional has no political consequences unless Parliament declines to discharge the government or even appeals to the Constitutional Court. The political assessment of the report is left to the parliamentary accounts committee, a subcommittee of the budgetary committee, and to Parliament as a whole.

Another way of specifying types of auditing and auditing criteria is to distinguish auditing of formal aspects, the accuracy of accounts, expenditure conformity with the budgetary law, and material auditing.

The first three criteria all concentrate on compliance with some sort of norms, be they norms of budgetary behavior (legality) or norms of mathematical operations (accuracy). However, material auditing (“sachliche Prüfung”, literally auditing of the substance matter) is the most crucial, because this assesses the standard of economy and efficiency (further, see below).

What these criteria mean in practice can best be read from some examples drawn from the annual report of the BRH as submitted to

Parliament. This report divides into two chapters: general remarks and specific remarks. General remarks typically deal with, e.g.:

- budget excess, in particular spending without qualifying entitlement;
- weaknesses of budget-related practice and procedures like accounting for federal property (1976 report) or applying cost-benefit analysis (1991);
- criticism of increasing fiscal burdens due to interest payments for public loans (1985, 1991), that would narrow the margins of fiscal policy in future budget years.

Specific remarks refer to individual ministries and reveal what, besides accuracy and legality checks, is meant in practice by *economy auditing*. For instance, the Foreign Office was criticized in the 1978 report:

- that “partly serious violations of the principles of orderly budget execution” had been detected. Numerous technical equipment, in particular entertainment electronics had been purchased under misleading declarations and were privately used. But, the audit office complains, the minister did not undertake anything to have the damage restored by those responsible and has not initiated disciplinary or legal measures under the penal code.
- The ministry had built up a staff reserve for the embassies containing, among others, thirty one posts of higher civil servants. Some of these positions, however, were not used for the declared purpose, but the incumbents were partly occupied in the ministry itself, partly delegated to parliamentary party factions (!).
- Embassies kept too much cash and, due to shifts in the exchange rates, lost considerable amounts of money.
- German car drivers were sent abroad to embassies, although one could have used native car drivers. On the other hand, native car drivers had been used, where for security reasons Germans should have been employed (report 1985).

As to the Defense Ministry, which regularly is extensively covered, the 1985 report castigated it, including as follows:

- The ministry had not succeeded to build up a sufficiently large supply of bread in case of defense as deficient wrapping necessitated that part of the supply had to be abandoned. Furthermore, the production of bread in bakeries of the Bundeswehr is regarded uneconomical and should be privatized, which would save 100 million DM per annum.
- The ministry had purchased in 1979 twelve Navy helicopters for six frigates employed in 1982. Until 1987 the ministry had not managed to install the helicopters, which made the complete weapon system ineffective.

Ambivalence of economic rationality. Economic rationality is a particular problem in the auditing field. For example, a fictitious audit by the BRH of the Bamberg Symphony Orchestra might read as follows:

1. Thirty per cent of the orchestra are inactive during large parts of the concert. A more even activity of all musicians, in particular of the drums, would increase efficiency.
2. Eight violins are used in a violin section, when three would have been sufficient.
3. A more balanced way of playing instead of changing between full power (*tutti*) and low parts (*pianissimo*) would increase efficiency.
4. Inspection of the individual instruments shows that the triangle is by far the cheapest solution. An increased application of this instrument is recommended.

This case is clearly imaginary and exaggerated. However, it should demonstrate that in order to assess the validity of such an audit, we need a conception of economic rationality, and some notion of the objectives of a measure. This is equally necessary for applying the maximum-principle (effectiveness, resources being constant) as well as the minimum principle (economy, output constant). Very often, though, the objectives of public activities are less than precise. This applies to the goal specification in the budget as well as to other sorts of entitlements, because the description of policy objectives is often the product of political compromise and therefore necessarily blurred. In these cases auditors can do nothing but apply the minimum principle without regard to the implicit goal expectations or potential negative side effects. This ambivalence between maximizing and minimizing principles may also be induced by treating economy and efficiency on the same logical level within the budgetary code (*Wirtschaftlichkeit und Sparsamkeit*), although, as every economist knows, saving is just one way of interpreting the principle of economic rationality. While this restricted interpretation of the standard of economy allows an assessment of individual decisions and projects, it is obviously no basis for evaluating programs in terms of their impacts.

Auditing beyond the budget? Auditing is part of the parliamentary discharge procedure and serves parliamentary control functions by keeping individuals in the executive branch accountable for their budgetary behaviour. But German auditing philosophy does not extend to program

evaluation. There are several reasons for this. First, the German administrative culture does not think in terms of programs. Practitioners have not yet learned that a law can also be conceived of as a program. This might have contributed to the tradition of perceiving laws as eternal, although in reality they are quite frequently amended. Second, from the point of view of financial auditing, there is a gap between legislated programs and the budget. As auditing is undoubtedly related to budgeting and as accountability has to do with accounts, only the budgetary consequences of legislation are reviewed, while the laws themselves are not part of the budget. Third, the political will expressed in legislation is customarily regarded as sacrosanct by the audit office. Thus, it is frequently argued that assessing the achievement of politically decided goals implies political judgments and oversteps the boundary into politics (Kisker 1989). However, there are some signs that auditors regard it as legitimate for them to refer to politically set goals (Geist 1984; Selmer 1990). Given the notorious imprecision of goal declarations, however, the BRH might be justified in warning of the danger in substituting the auditors' operationalizations for the politicians' will.

More recently it is increasingly acknowledged, that the Federal Court of Audit could take the results of budgetary audits as the occasion to request program evaluation of legislation without necessarily carrying through these evaluations (Zavelberg 1990). In line with this reasoning, the president of the federal audit office in his capacity as commissioner for economy in administration recently published a study (BWV 1990), in which the state of program evaluation in the executive branch was analyzed. This recommended that the minister of finance should request evaluation studies more frequently when preparing the budget, and measures were suggested to strengthen the institutionalization of the evaluation function in the federal ministries. Thus it might be argued that the BRH is in the process of opening up and strengthening evaluation capacities in the executive branch (Rürup & Färber 1985; Diederich et al. 1990). It is, however, doubtful whether the BRH is willing or capable of carrying through major evaluations with sufficient regularity.

Why Evaluation Is Not Linked to Budgeting and Auditing

There seems to be a tendency toward congruency between budgeting and auditing systems. Since program budgeting has never developed in

Germany, one cannot expect program evaluation to be part of the auditing process. Furthermore, despite the economic policy and program functions recently attributed to the budget, the budgetary system is, for historical reasons, devised primarily for the function of administrative and parliamentary control and emphasizes administrative and political accountability. The supreme audit office has been shaped by this administrative control function and has only recently become a "subsidiary organ" of the legislative branch. No wonder, therefore, that the auditing process serves first the needs of these subsystems. Nevertheless, evaluation has developed in the German federal government, even if this has had almost nothing to do with budgeting, and takes place outside the auditing process (Derlien 1990a).

The Interest of Program Administrators in Evaluation

Previous research has revealed that in many countries a second shift to institutionalize evaluation in the policy making process came into existence at the end of the 1970s (Rist 1990). One characteristic of this second evaluation movement was that functionally, evaluation became more closely related to budgeting. Institutionally this change was facilitated and made more visible by the important role central institutions such as finance ministries and auditors have been presently playing (Derlien 1990b).

Initiatives to evaluate intervention projects and programs in Bonn originated with program administrators. However, specialized parliamentary politicians outside the budget committee have felt the need to be regularly informed about the performance of their legislation. Thus, several hundred reports have been requested by Parliament in order to learn about the implementation of legislation (Derlien 1975a; Schindler 1986). Both groups of program specialists, those in the departments and those in Parliament, were attracted to evaluation because they were concerned about the operation of substantive policies. Thus, the information function of evaluation has been dominant.

Of course, evaluation studies could have been used by the officials of the finance ministry to find out which programs were inefficient and where spending could be curbed. However, not only is there no procedure to utilize evaluation studies initiated by program specialists, but also financial specialists lack the capacity to analyze the numerous reports.

In addition, it is difficult to draw conclusions from individual reports and prioritize programs. Logically this would presuppose cost-benefit analyses across various evaluation studies of programs designed to achieve different goals. Only in the extreme case of clearly deficient programs could one have considered stopping the program and spending the funds for different purposes. It is very rare for an evaluation to declare a program altogether inefficient precisely because evaluations are tailored to the needs of the program managers. The inquiries of the Federal Court of Audit, on the other hand, display a strong tendency to neglect programmatic aspects of the programs and rather concentrate on monetary inputs, minimization of costs, and abiding to budgetary law.

Two-Track Budgeting

The missing link between evaluation and budgeting has institutional causes. Not only is there no procedural connection between evaluation and budgeting, the budget structure itself and the organizational separation of budgeting and program development account for the lack of utilization. As budgeting in Germany is not comprehensive in the sense of the planning-programming-budgeting model, the budget process is not formally connected with policy making. There is hardly any systematic relationship between annual incremental budgeting projecting last year's figures into the next period and setting policy priorities. Thus, what has been observed in other countries - the most important factor shaping next year's budget is last year's budget - also holds for the FRG. Evaluation cannot enter the budgetary process as long as program development and budgeting are not linked in a systematic way.

Program administrators and members of Parliament are related to the budget process predominantly through intra-departmental budgeting. The program administrators request their budgets with programmatic concerns in mind and defend their previous budget by emphasizing the political priority of their projects. Parliamentary standing policy committees, which are specialized according to departmentalization of the executive, link up to support the budgetary position of their government departments. Whereas in the United States there is a variety of appropriations committees for a number of departments, the German parliamentary committees do not link to the one appropriations committee. Here the relationship between members of Parliament belonging to policy

committees and those specializing in budget matters is even looser than the interaction between policy departments and finance ministry. Thus, the evaluation reports requested by Parliament are addressed to the policy committees and dealt with there. Members of the small budget committee rely on the testimony of government officials and the advice of representatives of the Federal Court of Audit, who participate in the committee meetings, but do not focus on program issues. This division of labor is repeated within the parliamentary factions, where budget specialists lead a life of their own. Even pressure groups have little chance to influence decision making in the parliamentary budget committee, so they address themselves to relevant departments instead.

Dominance of Institutional Budgeting

Closely related to the two-track system is another technical element of the budgetary process: the institutional system that dominates the budget process both organizationally and systematically. The national budget is based on the departmental institutional budgets. These in turn comprise individual budget items that have some declared aims, but are not combined into programs. In principle, it would be possible to organize budget items contained in a ministerial budget in a programmatic way. This, however, has so far been attempted only in the Ministry of Agriculture (Derlien 1975b). Further, programming budget items within an individual ministerial budget does not allow any tailoring of programs crossing departmental jurisdictions. There are organizational reasons why the younger functional systematization, designed to strengthen the programmatic function of the budget, has limited practical use and has remained underdeveloped. All central actors involved in the budget process (the Ministry of Finance, the Cabinet, the parliamentary budget committee, the Federal Court of Audit, and the parliamentary review committee) are internally specialized according to the institutional system of the budget. There is no programmatic specialization either in the finance ministry or in the parliamentary budget committee. These central experts normally stay in their positions for a number of years and are extremely familiar with the ministerial sub-budgets (Zunker 1972).

Administrative reformers tend to abandon structures and replace them with new ones, that have never been put into practice before. This is not merely a risky strategy for change, it is also bound to engender resistance

on the part of those who are operating the system. One has to understand that the structures of the budgetary system in the FRG fulfill certain purposes that few want to give up. Focusing on institutions instead of programs clearly has organizational merits, not least extremely stable communication patterns (departmental boundaries change very seldom). Rearranging the system according to programs would mean that the network of contacts used for establishing the annual budget would change with policy changes and would need rearranging after every change in government. Furthermore, with programs that crosscut departmental boundaries, representatives of the finance ministry would have to deal with various departments and their representatives. This means not only that the communication network would become more complicated but also that, in the case of allocation conflicts, the finance minister would ultimately have to deal with two or more Cabinet ministers. This would complicate conflict resolution and, for instance, aggravate package deals.

In sum, budgeting, auditing and evaluation, which ideally are integrated in a system, are more fragmented in Bonn than may be the case in other Western capitals. This is so because first of all budget and program are neither organizationally nor logically integrated; at best, they are politico-logically linked by implicit considerations. The resulting two-track system, according to the principle of congruency between decision making and feedback processes, was bound to keep auditing and evaluation separate, too. The former has historically developed concomitant to budgeting and the functions it served in the various constitutional systems. Evaluation, which is related to the program (and insufficiently developed) function of the budget, is not yet related to auditing. Auditing practice is still fundamentally shaped by the requirements of administrative and parliamentary control functions with their emphasis on legal compliance and responsibility and accountability for organizations and not for programs. Also, economic rationality tends to be interpreted according to the minimum principle. Evaluation, on the other hand, had its origins in program development of the late 1960s and is functionally related to the information needs of those actors in the departments and in Parliament responsible for substantive policy, not for the budget.

Even in terms of recruitment, professional socialization and role understanding the worlds of auditors and evaluators differ. While the auditor, like his colleague in the Ministry of Finance, tends to be a jurist,

his role understanding is shaped by the budgetary code and he moves primarily inside the institutional setting of the budget cycle. Evaluators are, however, involved in a policy network of economists and social scientists in the departments, in Parliament and in the research community.

With this absence of organizational integration of evaluation and auditing within the BRH and consequently a lack of social integration of both communities, the only realistic hope to bring both functions, practices and groups of specialists closer together is some form of informational integration. Evaluation results could at least routinely be communicated to and analyzed by those administrative and political actors running on the budget track.

References

- Blasius, H. (1989). "Finanzkontrolle und Gesetzgebung," *Die öffentliche Verwaltung*, 42, 298-306.
- Bundesrechnungshof (1991). "Bemerkungen zur Haushalts- und Wirtschaftsführung," *Bundestags-Drucksache* 12/1150.
- BWV (Bundesbeauftragter für Wirtschaftlichkeit in der Verwaltung) (1990). *Erfolgskontrolle finanzwirksamer Maßnahmen in der öffentlichen Verwaltung*. Stuttgart/Berlin/Köln: Kohlhammer.
- Caiden, G.E. (1988). "The Vitality of Administrative Reform," *International Review of Administrative Sciences*, 54, 331-57.
- De Visscher, C. (1989). "The Modernization of Budgetary Techniques and Financial Control," *International Review of Administrative Sciences*, 55, 323-64.
- Derlien, H-U. (1975a). "Das Berichtswesen der Bundesregierung - ein Mittel der Kontrolle und Planung," *Zeitschrift für Parlamentsfragen*, 6, 42-7.
- Derlien, H-U. (1975b). "Probleme des neuen Planungssystems im Bundesministerium für Ernährung, Landwirtschaft und Forsten", *Die Verwaltung*, 8, 363-71.
- Derlien, H-U. (1990a). "Program Evaluation in the Federal Republic of Germany," in R.C. Rist, ed, see below, 37-52.
- Derlien, H-U. (1990b). "Genesis and Structure of Evaluation Efforts in Comparative Perspective", in R.C. Rist, ed, see below, 147-76.
- Diederich, N. et al. (1990). *Die diskreten Kontrolleure. Eine Wirkungsanalyse des Bundesrechnungshofs*. Berlin: Westdeutscher Verlag.
- Geist, B. (1984). "Auditing Government Policies", *International Journal of Government Accounting*, 9-11.
- Kisker, G. (1989). "Rechnungshof und Politik," in H.H. von Arnim, ed, *Finanzkontrolle im Wandel*. Berlin: Duncker und Humblot, 195-220.
- Nachtkamp, H-H. (1976). *Mehrjährige Finanzplanungen und mittelfristige Zielprojektionen der Bundesregierungen*. Baden Baden: Nomos.
- Rist, R.C. (ed) (1990). *Program Evaluation and the Management of Government. Patterns and Prospects Across Eight Nations*. New Brunswick, N.J.: Transaction Publishers.

- Rosenberg, H. (1958), *Bureaucracy, Aristocracy and Autocracy. The Prussian Experience 1660-1815*. Cambridge Mass.: M.I.T. Press
- Rürup, B. and G. Färber (1985). "Kontrollorientierte Ansätze einer Budgetreform," *Die Verwaltung*, 18, 173-200.
- Rürup, B. and H. Körner (1981). *Finanzwissenschaft. Grundlagen der öffentlichen Finanzwirtschaft*. Dusseldorf: Werner-Verlag.
- Schick, A. (1988). "Micro-Budgetary Adaptations to Fiscal Stress in Industrialized Democracies," *Public Administration Review*, 48, 523-33.
- Schindler, P. (1986). *Datenhandbuch zur Geschichte des Deutschen Bundestages 1980 bis 1984*. Baden Baden: Nomos.
- Selmer, P. (1990). "Zur Intensivierung der Wirtschaftlichkeitskontrolle durch die Rechnungshöfe," *Die Verwaltung*, 23, 1-24.
- Sturm, R. (1985). "Entscheidungsstrukturen und Entscheidungsprozesse in der Haushaltspolitik - zum Selbstverständnis des Haushaltsausschusses des Deutschen Bundestages," *Politische Vierteljahresschrift*, 26, 247-69.
- Treiber, H. (1984). *Politik unter der Oberfläche. Politikwissenschaftliche Analysen von Bundesaussgaben 1952-1980*. Frankfurt.
- Wille, E. (1977). "Mittel- und langfristige Finanzplanung," in Fritz Neumark et al. (eds), *Handbuch der Finanzwissenschaft*, Vol. I (3rd ed.), 427-74. Tübingen.
- Wittrock, K. (1986). "Parlament, Regierung und Rechnungshof. Zur Geschichte einer schwierigen Dreiecksbeziehung," *Zeitschrift für Parlamentsfragen*, 17, 414-22.
- Wittrock, K. (1989). "Der Rechnungshof als Berater - Aktuelles und Historisches zu einem interessanten Thema," *Die öffentliche Verwaltung*, 42, 346-9.
- Zavelberg, H.G. (1990). "Performance Auditing in the Federal Republic of Germany," *International Journal of Government Auditing*, 5-7, 16.
- Zunker, A. (1972). *Finanzplanung und Bundeshaushalt. Zur Koordinierung und Kontrolle durch den Bundesfinanzminister*. Frankfurt.