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Budget Theory in the Public Sector

Foundation of Budget Theory

- Early debate : Key (1940) – "Lack of Budgetary theory"
- Approaches : Economics, political science, Management
- Budget as both technical process and political process

Major Perspectives

- Economics → Allocation efficiency, public goods, expenditure theory
- Politics → Incrementalism, power struggles, agenda setting
- Management → Formats, planning, efficiency, accountability

Theory & Models

- Incrementalism (small annual changes, stability, predictability)
- Punctuated Equilibrium (sudden large shifts due to policy agenda changes)
- Budget Maximizing Bureaucrat (Niskanen – Managers seek larger budget)
- Portfolio Theory (budgets as portfolio of risk & return - Khan)
- Outcome Budgeting (focus on results, not just outputs)

Keys Issues in Budgeting

- Resource allocation as fragmented but interdependent process
- Interplay between macro-budgeting (national level, revenue, & spending) and microbudgeting (agency / Program level)
- Role of public managers : balancing technical efficiency, Politics, and community needs

Contemporary Trends

- Shift from growth era → Constraints & deficit management (1980s – 1990s)
- Greater public involvement, transparency, and accountability
- Integration of political philosophy (entrepreneurial budgeting, information age)