

The Pros and Cons of Zero-Based Budgeting

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Good afternoon. Thank you for this opportunity to testify. I am the director of fiscal policy for the Mackinac Center for Public Policy, a free market research and education institute. I have been in the Mackinac Center's employ for more than 14 years. During that time, I have been blessed with the opportunity to study, write and speak on the good and bad ideas produced by government. I have been asked to briefly address the issue of zero-based budgeting. I am happy to do so.

Zero-based budgeting requires that the existence of a government program or programs be justified in each fiscal year, as opposed to simply basing budgeting decisions on a previous year's funding level. Zero-based budgeting is often encouraged by fiscal watchdog groups as a way to ensure against unnecessary spending. Zero-based budgeting, or some modified version of it, has been used in the private- and public- sectors for decades. Indeed, it is my understanding that the first use of zero-based budgeting in government has been tracked back to Gov. Jimmy Carter's use of it in Georgia in the early 1970s.

As with most policies, there are both benefits and costs to be taken into account when considering zero-based budgeting. Case studies about businesses and governments that have adopted zero-based budgeting, or some hybrid of it, generally report some improvement quantitatively or qualitatively. That is, the process has either saved money, improved services, or both.

In addition to saving money and improving services, zero-based budgeting may:

- Increase restraint in developing budgets;
- Reduce the entitlement mentality with respect to cost increases; and
- Make budget discussions more meaningful during review sessions.

On the cost side of the equation, zero-based budgeting:

- May increase the time and expense of preparing a budget;
- May be too radical a solution for the task at hand. You don't need a sledgehammer to pound in a nail;
- Can make matters worse if not done in the right way. A substantial commitment must be made by all involved to ensure that this doesn't happen.

Zero-based budgeting can be useful for shaking up a process that may have grown stale and counterproductive over time. But I must offer three serious warnings.

First, the success of such a change like this hinges strongly on leadership that is dedicated to the task. If those appointed to conduct budget reviews are unwilling to truly assess every item in their budget, word will get out quickly that this new budgeting technique is more symbolism than substance. Indeed, it is incumbent upon proponents of zero-based budgeting to ensure that those reviewing the budget do not have a pecuniary interest in maintaining the status quo. Allowing people who will be most affected by the elimination of programs to conduct their own reviews may be counterproductive, since most people are quick to defend their own interests.

Second, don't attempt to do zero-based budgeting for every department, every year. Such a move may prove impossible to manage. Instead, choose several departments and/or agencies, and rotate through every facet of state government over time. In Oklahoma, which adopted zero-based budgeting, officials applied the method to two departments and several agencies each year. Once those reviews are complete, the same departments and agencies will not see another zero-based review for eight years.

Third, ensure that each review is conducted by referencing all aspects of a department, agency or program to what its goals are. This makes the very purpose of the entity being reviewed transparent, and can increase the opportunities available for making objective measurements of a department, agency or program's success rate.

As with most programs or reforms of programs, it must be done right, or it should not be done at all. For example, department, agency or program directors who feel endangered by this kind of scrutiny will be delighted to be placed in charge, so that they can do it wrong, waste everyone's time, and give a cutting-edge management tool like zero-based budgeting a bad name, all at the same time.

The Mackinac Center for Public Policy applauds this committee's interest in information on zero-based budgeting. Getting the right information is key to making good management decisions and it seems that you're making a point of collecting that information as it relates to zero-based budgeting. This committee may wish to look outside the state of Hawaii to states that have either adopted zero-based budgeting or studied it for purposes of assessing its effectiveness.

Thank you again for this opportunity.