“Creating Public Value with Tax and Spending Policies: The View from Public Economics” by Laura Kalambokidis provides an excellent summary and analysis of modern developments in public economics. While many of the proposed public finance tools should be useful in evaluating discrete and digestible pieces of proposed legislation, I remain skeptical of the applicability of these tools in evaluating proposed budgets either at the federal or state level.

The heart of Kalambokidis’s article is a series of analytical tools (from the public economics toolbox) that “can help governments make tax and spending choices that will maximize public value.” Many of the tools revolve around “a cost–benefit framework to identify policies that can deliver the greatest return to the state’s investment.”

While I am sympathetic to the rigorous toolbox described so well by the author, it is important to recognize where the systematic application of these public finance tools is feasible and where it is not. In the first instance, the proposed tools are appropriate and helpful in evaluating new and discrete legislation involving tax and spending policies outside the normal budget process.

The obvious question is, why exclude the budget documents that are generally the major pieces of legislation adopted by either the Congress or the respective states in a given year? As one who has developed and negotiated budgets for both New York City and New York State for more than a decade, I question whether the rigorous cost–benefit framework espoused by the author may be practical.

In the case of New York State, current budget documents total nearly 3,000 pages, include more than 20,000 discrete appropriations, and are currently $138 billion in size. The budget itself (actually a series of budget bills) is required under the state constitution to be released by the executive during the third week of each January.

The governor then has 30 days to offer amendments to the original budget. In some years, these amendments are voluminous. By the middle of February, the New York State Legislature has a complete proposed budget to evaluate. Unfortunately, the state legislators and their fiscal staff have only six weeks to evaluate the proposed budget and offer amendments before a final vote is taken on March 31, the day before the start of the new fiscal year.

Having supervised the budget process and analysis for more than a dozen budgets at the state and city levels, I believe that it is not realistic, let alone practical, to expect a rigorous cost–benefit analysis of each discrete appropriation (a variant of zero-based budgeting) given the limited timetable imposed by the state constitution.

At the very best, the current budget process in most states allows “a rough justice,” as described by Joseph Stiglitz. You try to evaluate the overall winners and losers and hope to estimate their relative gains and losses. In my view, this is a best-case scenario for most large states, where the budget time frame is severely compressed.

Clearly, this is not the standard espoused by Kalambokidis. In her view, “To benefit from an economics-based view of public value, government decision makers need help to identify market failures and the range of options available to address those failures. They also need policy analysis that can forecast the expected outcome from adopting a proposed policy.”

While I think her standard is high, it can be achieved for discrete and digestible legislation outside the “hot-house” environment of budget making. In particular, rigorous policy analysis should be applied to new and discrete legislation in multiple areas ranging from criminal justice to the environment to the evaluation of individual tax expenditures. Kalambokidis offers numerous instances in which such analysis is currently being undertaken.
In summary, the article is worthwhile and offers rigorous and practical public finance tools to evaluate discrete pieces of legislation. I only question the appropriateness of the proposed toolbox to evaluate overall budgets given their enormous complexity and the pressure to complete the analysis in a very short time frame.

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