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Performance Based Budgeting in France

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A new Constitutional Bylaw on budget process was adopted in France in 2001 to shift to performance budgeting. The reform touched every aspects of budgeting, from the content and design of budget documents, to the appropriation process and the spending implementation responsibilities. Implemented in a big-bang transition at the occasion of the 2006 budget act, it is now approaching a mature stage in 2008. In a pragmatic approach, the system is designed to undertake marginal adjustments over the years.

This paper presents the new constitutional Bylaw regarding budget appropriation and implementation and focus on public service delivery. It is structured in three sections: 1) performance budgeting in France, 2) an integrated performance information process, and 3) performance budgeting and public service delivery.

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1. Performance budgeting in France

A thorough, multipurpose budget reform initiated by Parliament

The reform of the constitutional Bylaw on budget acts, the ***"LOLF - Loi Organique relative aux lois de Finance"***, was adopted on August 1, 2001. It overrides the former 1959 legal framework of a similar kind and was first implemented at the occasion of the 2006 budget act.

This budget reform was essentially initiated by the Parliament and adopted on the basis of a political consensus and a broad support from political parties. During the 1999-2000 years, the Parliament engaged in budget process analysis, with a focus on transparency and performance and specific concerns with respect to rebalancing appropriation powers and enhancing expenditure efficiency.

It followed some dissatisfaction with the functioning of the former budget framework which showed rigidities, lack of accountability, and no explicit consideration to expenditure performance or purpose. Furthermore, besides the general principle, the Parliament tended to resent its rather limited power over the appropriation process, as only a share of the annual budget was in practice up for political scrutiny and amendments due to the entitlement constraints.

As a result, the 2001 constitutional Bylaw is a thorough reform encompassing the whole budget framework. Nearly all aspects have been significantly revised, from its very appearance and format to the appropriations rules. It thus established a new incentive and control framework for the various participants to the budget process (parliamentarians, ministers, heads of administration departments). Enhanced transparency and accountability are also key components, also with respect to improving accessibility and readability of budget documents by the public at large. In that context, a new public finance accounting standard has also been decided, with a shift to accrual accounting.

The 2001 constitutional Bylaw also provides for an increased autonomy of the administration when implementing the budget. For this purpose, the rules regarding expenditures management have been renewed with the introduction of the 'globalization of resources' approach. Under this new framework, the administration is authorized to reallocate elements of funding during the year, without prior authorization from the Parliament. However, the administration's performance is up for due reporting to and examination by the Parliament in the following year.

Programme-based budgeting for improved transparency and accountability

A significant innovation of the French LOLF is the overhaul of the design of the formal structure of the budget. Breaking away from the previous expenditure-based approach, where budget documents are primarily organized along the line of the expenditure categories and spending institutions, it shifts the focus on expenditure purposes. The new programme-based budgeting defines and categorizes national public expenditures on the ground of their functions or purposes.

The LOLF's programme-based system is a three-tier structure organized along the "Mission", "Programme", and "Action". The Missions correspond to the major public policies. Each Mission includes a set of programmes to which appropriations are allocated and broken down into sub-programmes (Actions) that together constitute the operational means of implementing the Programme. In comparison, the previous budgetary structure based on 'budget chapters' obscured the ultimate aims of budget appropriations and the cost of

administrative policies and structures. By breaking down the budget into major public policy objectives, the State's missions and public service goals become transparent.

A Programme covers the appropriations needed to implement a measure, or a coherent set of activities coming under the same ministry and involving specific objectives. Thus, a Programme corresponds to a center of responsibility. A Mission covers a series of Programmes designed to contribute to a specific public policy. A Mission can jointly involve several different ministries (such as, for instance, the "Research and Higher Education Mission") or just a single one (such as the "Culture Mission").

In 2008, there are 34 Missions in the general budget (plus 14 Missions annexed to the general budget), corresponding to a total of 132 Programmes (plus 38 respectively) and covering 605 Actions. Among the 34 Missions, 11 are inter-ministerial.

Greater appropriation powers and performance control for the Parliament

The LOLF brings forward a revised set of rules for the Parliament appropriation process in order to increase its budget power.

The LOLF enhances the importance of the Budget Review Bill, which gives an opportunity to Parliament members to discuss the implementation of the past budget. This is the time when the Parliament focuses on the expenditures performance assessment of previous budgets. This performance analysis provides a basis for the preparation of its future decision on credit appropriations for the budget of the following year. Thus, following the Budget Review Bill debate, the Parliament holds the *budget policy debate* institutionalised by the LOLF (initially introduced in 1996). This serves as an early framework for the future Budget Act along with a multi-annual approach of the budget policy.

Before the LOLF, voting the budget was a rather limited activity due to the entitlement constraints, by which an important part of the budget was deemed already required without any change in order to maintain a series of public functions and operations. In that context, only flows of 'new measures' (as opposed to the stock of already 'approved measures') were available to the Parliament for debate and amendments. Under the LOLF, such a distinction between 'new' and 'approved' credits disappears and the total amount of the annual budget is readily amendable by the Parliament. This is referred to as the '*first euro*-based appropriation rule'.

The new framework for Parliament appropriation powers is set around the Mission. The Parliament is entitled to amend funding allocations within a Mission, i.e. to increase/decrease appropriation for a Mission, or within a Mission to reallocate fund from a Programme to another. The decision making of the Parliament is thus centred on the Mission, which serves as a unit for the vote process. As a general effect of the LOLF, the MPs' powers of amendment are thus greatly extended, because they are able to reallocate appropriations between the various Programmes making up a particular Mission, on a first euro-basis.

The LOLF provides for more stringent control over current credit movements that increases the impact of Parliament's budget authorisations. The Finance Committees of both assemblies has greater investigative and hearing powers. They are able to conduct on the spot investigations on particular matters and refer them to the French National Audit Office as part of their control and assessment remit. Thus stronger links between budget execution and parliamentary authorisation are established with more supervision of movements of appropriated funds. Most of these movements – credit transfers, carryovers, advances or cancellations – are subject to prior notification of Parliament and are capped, the ceiling being a percentage of the initial appropriations. That notwithstanding, in order to preserve the

balanced budget as defined by the Budget Act, Parliament has recognised the Government's right to cancel, by decree, up to 1,5% of the initial appropriations (thereby affording Government the benefit of a mechanism for fine-tuning budget execution).

Greater autonomy for the administration to enhance executive spending performance

While the budget powers of the Parliament are significantly enhanced in terms of appropriation decision, the LOLF also increases the powers of the executive branch in terms of spending implementation. The ministries are granted a much higher autonomy for implementing the budget once credits have been approved by the Parliament. This autonomy of the administration in annual expenditures management results from the three-tiers budget structure itself. While the Parliament decides on appropriation at the Mission level, and approves the specific credits for each of the Programmes, any indications on credits allocations between Actions within a Programme remain indicative. At this lower, more detailed level, the position of the Parliament does not constitute a legal constraint to the executive branch in charge of implementation. This autonomy established at the Programme level, is referred to as the 'globalization of resources', as credits within a Programme can be easily re-allocated without further authorisation from the Parliament.

The purpose of this increased autonomy is to give more flexibility to the administration to face the various shocks and uncertainties budget planners are unable to anticipate or control ex ante. It also serves as an incitation to promote higher efficiency of public spending, as the head of the administration in charge will have the powers to fine-tune its Programme management during the budget year, on the basis of the pre-established goals set forth within the Programme framework.

However, the LOLF established a specific limitation to this autonomy, a limitation referred to as the 'asymmetric' character of the globalization of resources. Actions are voted by the Parliament with a budget *indicative* amount specified by the various classes of spending (e.g. 'personnel', 'operating', 'capital'…). In principle, these credits can possibly be reallocated from one class of spending to another one, but only under the *asymmetric* constraint. 'Personnel' class appropriations may be used to replenish the rest of the Programme (i.e. other classes of credits); conversely, it is prohibited to replenish 'personnel' appropriations with other parts of the Programme's funding.

Thus, credits allocated to the 'personnel' are capped and such ceilings are mandatory to the administration, besides the globalization of resources rule. The rational for this asymmetric rule results from the long-term implications of personnel (civil servants) recruitment decisions when compared to the much shorter-term scope of most of other classes of public expenses. Thus fungibiliy is set to be only valid for same time-frame classes of credits, so as to prevent that irreversible long-term effect expenses be abounded by short-term ones, within a Programme, without due approval by the Parliament.

The LOLF also enhances the executive branch responsibility and accountability. For each Programme, a dedicated 'Programme Manager' (*Responsable de Programme*) is designated with the responsibility of managing the operations covered by this Programme. This Programme Manager operates its function under the authority of the minister in charge, who is accountable to the Parliament. This contributes to the purpose of increasing transparency, as executive responsibilities are made public on an individual basis. In that respect, the Parliament is entitled to hearings, during which the minister and/or the Programme Manager is invited to report on its management and to testimony in the context of the performance assessment examination. Each Programme under the responsibility of a Manager is tied with performance goals and indicators.

2. An integrated performance information process

A set of documents dedicated to performance budgeting

The LOLF creates a performance management system applying to every areas of expenditure. This system has for primary purpose to enhance executive efficiency with respect to budget implementation. It also aims at improving the quality of appropriation decisions by the Parliament in making available to the MPs ex post information on the Programmes' achievements and their performance effects in terms of outputs, outcomes, and quality of service delivery.

The constitutional Bylaw designed a performance reporting process integrated to the budget legal framework (Budget Acts), for each Mission, Programme and Action, for every year. This performance reporting process also reflects a need associated to the higher autonomy granted to the administration in implementing the budget. These new powers of the executive side vis-à-vis the Parliament, characterized by a high spending discretion capacity during a budget year, required increased parliamentary control from one budget year to the following ones, as an institutional counterpart. All together, the performance reporting process, as compared to the pre-LOLF system, is a shift from ex ante parliamentary control, based on intentions and resource allocations, to ex post control based on implementation and achievement of explicit goals and performance scrutiny.

The performance reporting process is integrated to the budget cycle through two new types of mandatory budget documents, the ***PAP*** and the ***RAP***:

- ***PAP*** documents (*Projet Annuel de Performances – Annual Performance Project document*):

The 'annual performance plans' - *PAPs* are published in Fall along with the Budget Act, as annexed documents individualized for each Program. For a given Mission, the *PAP* provides a detailed description of its purpose, goals, policy targets and indicators for performance examination. As part of the Budget Act, the *PAP* documents are primarily forward looking and tend to contribute to the public debate with respects to goals set for public policy. Appropriations for the following budget year are described in the *PAPs* including the indicative details regarding allocations by class of credits (staff, investment…).

- ***RAP*** documents (*Rapport Annuel de Performances – Annual Performance Report*):

The 'annual performance reports' - *RAPs* are published in Spring along with the Budget Review Act in a format similar to the *PAPs*'. The *RAPs* focus on performance achievements and provide detailed information on the degree of expenditure implementation and results. The RAPs thus are backward looking and tend to contribute to the public debate on ex post performance analysis and on the administration's performance in managing public expenditures.

In complement to the *PAP* and *RAP* documents, the LOLF provides a methodological support and control framework to help both the parliament and line ministries adopt common references with respect to performance methodology and technicalities. It also intends to maximized the relevance and credibility of the performance examination process:

- The 'Interdepartmental Programmes Audit Committee' *CIAP* (*Comité Interministériel d'Audit des Programmes*) was created to contribute to the methodological soundness of the performance examination process and documents. It is mandated to provide a quality control of the *PAPs* and *RAPs* before their submission to the Parliament, with a focus on the technical difficulties associated with performance methodology and data relevance and

accuracy. It aims at guaranteeing the reliability and objectivity of the indicators and the data provided by line ministries. Members of the *CIAP* are internal auditors (*inspecteurs généraux*) from several ministerial departments and are nominated by the respective ministers. The *CIAP's* chairman is designated by the Finance minister.

- An inter-institutional performance *Manual* was conceived and published to foster a common conceptual reference and technical language for the institutions involved in the performance examination process. This *Manual*[2] is the joint product of the collective work of the administration, the Parliament and the National Court of Auditors (*Cour des Comptes*). It provides orientations for designing, analysing and interpreting performance related information.

In 2008, a total cost approach was generalized for each program to provide the Parliament with an enhanced cost-based information to help assess the performance of expenditure. In order to fully generalize the total coast approach, tax expenditure items (a total of 509) were also included and each was associated to a policy objective. Tax expenditures are quantified and their amounts are allocated to Programmes, based on their estimated contribution to the policy covered by the Programme.

The performance indicators taxonomy

At the core of the performance examination process lies the *performance indicators*. Under the LOLF, a specific taxonomy has been created with three categories of indicators. Theses three types of indicators are conceived in order to take into consideration the fundamental dimensions of performance defined around three standpoints ('citizens', public services 'users', and 'taxpayers'). Thus, three criteria are used to measure performance: social and economic effectiveness, quality of service, and efficiency.

Performance Indicators Taxonomy

Standpoint	***Goal***	***Sample goal***	***Sample indicator***
Citizen	Social and economic effectiveness	Health: cut breast cancer screening time	Average time elapsing before breast cancers are detected
User	Quality of services	Police: cut police intervention time	Average time between police forces being alerted and their arrival on the scene
Taxpayer	Efficiency	Roads: reduce maintenance costs	Average maintenance cost per kilometre

Under this taxonomy, indicators are designed with a pragmatic approach, while this taxonomy helps balance the focus of performance. Under the LOLF, all indicators in the *PAP* and *RAP* documents specify the category they belong to. Along with this three-fold indicator taxonomy comes specific methodological orientations for designing and interpreting the indicators. In general terms, the *Manual* also provides guidance for designing indicators.

[2] *The Performance-Based Approach: Strategy, Objectives, Indicators - A Methodological Guide*, June 2004.

Methodological characterization of goals and indicators

(Excerpt from the *Manual*)

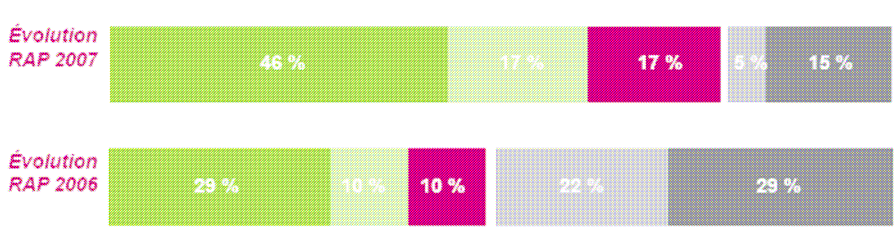
Strategic objectives must combine:

- common features (they must be few in number, represent essential aspects of the Programme and address the expectations of citizens, users and taxpayers in a balanced way);
- specific features (they must be clear, linked to Programme activities and measurable by indicators).

Indicators must be:

- relevant, meaning that they must be capable of measuring the results actually obtained (they must be consistent with the objective, relate to a material aspect of the expected result, provide the basis for a judgment and avoid effects contrary to those sought);
- useful (they must be provided at regular intervals, lend themselves to comparison, be exploitable by government agencies and be comprehensible);
- solid (they must be durable and absolutely reliable while being generated at a reasonable cost);
- verifiable and auditable.

In 2007, the general budget includes a total of 1172 indicators. The analysis of these indicators on the basis of policy achievements showed that 80% of these performance indicators are fully operational and allow to compare intended results (*ex ante*) with actual results (*ex post*). Among those indicators, 58% show a significant performance improvement (targets reached), 21% a limited performance improvement (approaching targets without reaching them), and 21% a stagnation or a non significant improvement. These results of the performance information system is generally satisfactory as it shows where are the potentials for policy improvements.



Colour code of indicator-based performance results

Dark green (left): Results satisfactory, up to expectations
Light green (center-left): Progress but results not up to expectations
Red (center): Limited progress, far from expectations
Light grey (center-right): Performance data only partially available
Dark grey (right): Performance data not available

3. Performance budgeting and public service delivery

As is established in the LOLF indicator taxonomy, a dedicated type of indicators is designed specifically to assess the quality of public service delivery.

There is a rational for assessing separately the general economic and social impact of public policies (more outcome focused) and the quality of service (more output focused) when the administration provides such service directly to the users. In the latter case, there is a provider-client type of relationship (that may be monopolistic, but not necessarily) for which specific 'quality performance' assessments are relevant (e.g. timeliness, accessibility, fairness, transparency…). Conceptually, they differ from macro-economic effects of public expenditures or their impact on the society as a whole, goals for which the Government is expected to act on behalf of the citizens.

Cases of measurement of the performance of service delivery (Budget Act 2008)

Goal: Improve the safety and service quality of the national road network
Mission: *Ecology, sustainable development and infrastructures*
Programme: *National road network*
Indicator No 1.2: *Users satisfaction*

The government is responsible for providing safety and service quality on the national road network. This indicator is tailored to measure the performance of the service quality. It is based on the users' perception of the physical quality and the level of service on the national road network, specified by categories of roads. The information for this indicator is based on users pooling provided by CREDOC, a pooling and research institution. The pools focus on the users perceptions of road maintenance, cleanliness, services, rest areas, traffic conditions. The indicator value (note/10) for each type of road is the average of the values for the specific questions.

Indicator: *Users satisfaction*

	Unité	2005 Réalisation	2006 Réalisation	2007 Prévision PAP 2007	2007 Prévision actualisée	2008 Prévision	2010 Cible
note relative à l'état physique du réseau non concédé (hors autoroutes)	Note/10	7,30	7,10	7,30	7,10	7,30	7,30
note relative à l'état physique du réseau autoroutier non concédé	Note/10	8,55	8,35	8,55	8,45	8,50	8,55
note relative à l'état physique du réseau concédé	Note/10	9,10	9,10	9,10	9,30	9,20	9,20
note relative aux services à l'usager sur le réseau non concédé (hors autoroutes)	Note/10	6,80	6,45	6,80	6,35	6,50	6,80
note relative aux services à l'usager sur le réseau autoroutier non concédé	Note/10	7,80	7,65	7,80	7,80	7,80	7,80
note relative aux services à l'usager sur le réseau concédé	Note/10	8,60	8,45	9,00	8,65	8,80	9,00

The table (extracted from the 2008 budget act) show the past actual values of the indicator, for each type of road, the target and expected values for 2007, the target value for 2008, and the longer term target for 2010.

Goal: Provide judicial decisions of civil court in a reasonable time
Mission: *Justice system*
Programme: *Judicial justice*
Indicator No 1.1: *Average time for processing legal cases, by types of jurisdiction*

As a provider of the justice services, the government focuses on the performance of the delivery of the services from the judicial system to the users. One critical aspect considered here for improving the quality of service delivery is the delay of processing legal cases by the civil court, specified by types of jurisdiction (measured in months). To avoid that improved performance by reducing delays be associated to lower quality of court decisions, other indicators keep quality under scrutiny. This indicator focus on the flow of legal cases and needs to be interpreted in relation to the stock of total cases, for which another indicator is available.

Indicator: *Average time for processing legal cases, by types of jurisdiction*

	Unité	2005 Réalisation	2006 Réalisation	2007 Prévision PAP 2007	2007 Prévision actualisée	2008 Prévision	2008 Cible
Cour de Cassation	Mois	20,48	18,71	17	17	17	17
Cours d'appel	Mois	14,2	13,28	12	12	12	12
Tribunaux de grande instance	Mois	6,7	6,58	6	6	6	6
Tribunaux d'instance (dont justice de proximité)	Mois	4,7	4,76	3	3	3	3
Conseils de prud'hommes	Mois	12,1	12,37	9,5	11	10	10
Tribunaux de commerce	Mois	5	ND	5	5	5	5

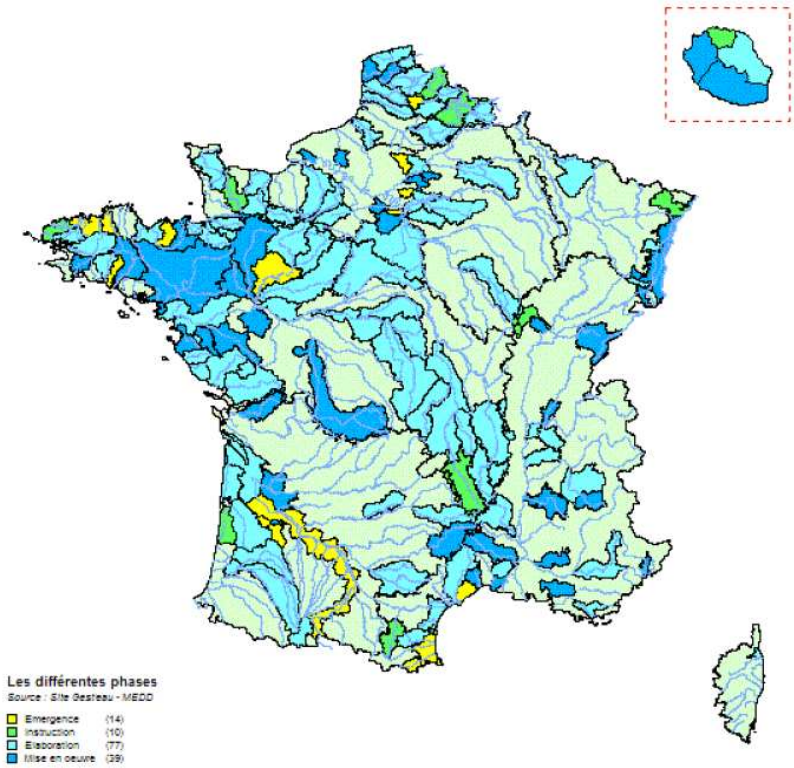
Goal: Provide integrated management of water ressources
Mission: *Ecology, sustainable development and infrastructures*
Programme: *Environmental protection and risks prevention*
Indicator No 2.4: *Water resources preservation*

A 2006 law established the need for an integrated management of water ressources based on the water ecosystem of each hydrographic area, in line with the European Union regulation on water pollution control and the associated 2015 goal. Integrated water management requieres the participation of several stake holders within the policy framework for water infrastructures and management (SAGE - schéma d'aménagement et de gestion des eaux), for each hydrographic area. The main actors are the six water agencies, the water watchdog (police de l'eau), and the National office for water and aquatic areas (ONEMA - Office national de l'eau et des milieux aquatiques). The policy frameworks for water infrastructures and management (SAGE) are legaly binding and provide for the coordination of the various stakeholders taking into account the possible conflictual water uses (consumers, industries, agriculture). Integrated water management also requires to reduce risk of flowdings and to improve flowding warning and information systems.

Indicator: *Water resources preservation*

	Unité	2005 Réalisation	2006 Réalisation	2007 Prévision PAP 2007	2007 Prévision actualisée	2008 Prévision	2012 Cible
Pourcentage de l'activité consacrée aux contrôles ramenée à l'activité totale des ETP des services de police de l'eau	%	15	14	20	16	18	20 en 2009
Couverture du territoire par des schémas d'aménagement et de gestion des eaux	%	20	25	nd	30	35	70 en 2012

The first indicator reflect the relative importance of field control by the watchdog. The second indicator shows the share of the territory covered by the stakeholders coordination framworks (SAGE) and reflect the degre of national implementation of the integrated approach for water management. It also reflects the performance of the consultation process organized among the local stakeholders, as part of the process leading to a SAGE framework agreement. A map of the territories covered (or to be covered) by SAGE agreements is alos included in the budget document to specify the practical meaning of the indicator and show the phasing of implementation.



Goal: Increase tax easiness
Mission: *Management of public finances and human resources*
Programme: *Fiscal and financial management of the State and local public administration*
Indicator No 2.1: *Degree of implementation of the commitments in the* tax easiness program
Indicator No 2.2: *Share of on-line tax processes*

The Ministry of Finances is responsible for providing the public service of collecting taxes. Following a series of reforms of the tax administration, the goal is to make easy to pay taxes. Two indicators provide a performance measurement for this goal. The first indicator is a measure of quality of service of the tax administration to the taxpayers. The second indicator is the degree of on-line tax transactions and activities.

Indicator: *Degree of implementation of the commitments in the* tax easiness program

	Unité	2005 Réalisation	2006 Réalisation	2007 Prévision PAP 2007	2007 Prévision actualisée	2008 Prévision	2008 Cible
Niveau de mise en oeuvre effective des engagements du programme « Pour vous faciliter l'impôt », commun à la DGI et à la DGCP.	Note sur 5	4,5	4,5	5	5	5	5

This indicator is a composite of a series of 11 weighted variables measuring the quality of services, such as: success of tax enquiries over the phone, delay of mail and email answers to tax enquiries, scope of access to the tax office, efficient rerouting of inquiries…

Indicator: *Share of on-line tax processes*

	Unité	2005 Réalisation	2006 Réalisation	2007 Prévision PAP 2007	2007 Prévision actualisée	2008 Prévision	2008 Cible
Part des recettes de TVA, d'IS et de TS acquittées par des usagers professionnels ayant adhéré à une téléprocédure pour leur règlement	%	54,8*	62,28	67	67	70	70
Nombre de télédéclarants Télé IR	Nombre	3 739 493	5 161 559	8 500 000	8 500 000	10 000 000	10 000 000
Taux de paiement dématérialisé des impôts des particuliers (IR-TH-TF)	%	42,70	45,20	47	47	49	49

As part of a general transition towards e-government service delivery, the goal of shifting tax services on line is a key move toward improving the easiness of tax. This indicator identifies the number of taxpayers using on-line services for their taxes. It covers citizens and corporations and several types of taxes and transactions.

Conclusion

The French reform of the constitutional Bylaw on budget acts was a major step towards modernisation of government. The main challenges can be organised in two categories: the design of reform and its implementation.

Designing the new performance-based budget framework required to deal with two important difficulties:

(i) all the technicalities of performance budgeting, as there are no simple or straightforward solutions to the many trade-offs;

(ii) the necessary coordination process (coaching and negotiation) in a multi-actors game with heterogeneous interests and administrative cultures.

The reform of the constitutional Bylaw on budget acts, adopted in 2001, was set up for implementation only in 2006. This four year transition period was conceived to give time to the work and process necessary to meet these two design challenges (technicalities and coordination).

Once the new performance budget framework is fully designed, there are still significant challenges with respect to its implementation. First, all the operational participants need to be coached into the practicalities of the new budget system. A significant information and training programme is of paramount importance to warrant that the new approach trickled down to every front line actor, with a high degree of ownership. This also requires focusing on other practical issues such as setting up an appropriate computer application for an automated and integrated inter-department budget information system. Second, because of the design challenges, implementing the reform also requires to allow flexibility for adjustments and changes, as experience with implementation brings useful information on the relevance of the early design choices. However, such adjustments must be kept within the new performance-based approach and principle.

In that context, a dedicated department (Department for budget reform – *Direction de la réforme budgétaire*) was created on a temporary basis within the ministry of finance, with reform coordination authority. This department was mandated to pilot the transition process, while other important actors such as the Parliament and the Court of Auditors were associated.

As it turns, the French administrative culture influenced by the Napoleonic heritage with a top-down control outlook was rather a strength for managing such a significant one-step change at the heart of government. Once the political decision was taken with respect to the direction and principles of the reform, the administrative arm was then empowered to manage the transition. While a top-down culture may show limited adaptativity for short term evolutions (with “bureaucratic” resistance to change), it seems to offer advantages for such major reforms.