Chapter 10
Summary, Initial Observations, and Getting to a Tentative Theory of Public Investment Behavior

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ABSTRACT

This chapter evaluates the 12 countries' capital management practices according to the systematic public capital management and budgeting process described in Chapter 1. The chapter characterizes and classifies the management practices of the twelve countries based on the authors' evaluation using the case study descriptions. The authors offer some initial observations based on comparisons across the case study countries and analysis of relationships between capital management and budgeting practices and political, economic, and public sector variables. The chapter proposes a tentative theory of public investment behavior and offers five propositions regarding the factors driving different practices across the case study countries and the consequences of a systematic capital management and budgeting process.

INTRODUCTION

In addition to describing how public capital management and budgeting is practiced in different countries, another purpose of this book is to propose a tentative theory of public investment to add to the public finance literature. The previous chapters describe public capital management and budgeting practices in twelve case study countries. An understanding of the differences in public capital budgeting and management practices across the twelve countries should provide a foundation toward theory building in public

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capital management to explain factors that contribute to variations in public capital management. The individual country case studies presented in this book suggest that capital management and budgeting practices vary regardless of geographical location and government regimes.

This chapter evaluates the twelve countries' capital management practices according to the systematic public capital management and budgeting process described in Chapter 1. The chapter then characterizes and classifies the management practices of the twelve countries based on the editors' evaluation using the case study descriptions. Finally, based on existing frameworks and theories from public finance and entrepreneurial finance (such as information asymmetry, expected utility, transaction cost, prospect theory and investment bias) the chapter proposes a tentative theory of the factors driving different practices across the case study countries.

Note that the tentative theory proposed in this chapter is just a starting point in developing public capital management theory at the international level. This proposed theory needs a larger sample of countries to improve its descriptive and predictive capacity. Despite the important roles of public infrastructure on a country's economic growth, less is known regarding the causes of different capital management practices in providing and arranging public infrastructure systems. Thus, we hope that this book will inspire comparative public administration and international development theorists to build a stronger knowledge base.

The Systematic Process as a Yardstick: Recapitulation

As described in Chapter 1, the normative public finance literature recommends systematic public capital management and budgeting practices for a public infrastructure system that is useful and responsive to the public's capital needs and has reasonable cost compared to its useful life. The systematic process includes long-term capital planning, budgeting and financial management, centralized execution and project management, and infrastructure maintenance. Long-term capital planning includes establishing strategic and fiscal plans based on a government jurisdiction's comprehensive planning and public infrastructure need analyses. The comprehensive plan is a master plan that spells out broad policies for the community's long-term land use, expansion, and containment. The strategic plan describes policies and management practices that will make the best use of available resources to implement the community's vision as stated in the master plan. Long-term fiscal planning is about projecting revenue and expenditure in order to understand future capital financing capacity and capital needs. Long-term fiscal planning may not and cannot be completely accurate given that projections will be subject to error, especially for those in the far out-years. However, the projected results give a rough idea in terms of resources available and the future of a community. Capital inventory and needs analysis identify gaps between existing public infrastructure and future needs based on community growth and socio-economic profiles. If these planning practices are implemented, the community should have a Capital Improvement Program (CIP) which is a comprehensive list of capital projects a community will need within the next 5-7 years along with plans to finance the projects and the impacts of the projects on future budgets. This component will enhance *allocative efficiency* of public capital investment since the systematic review suggests what projects to invest in based on the community's needs and vision, and how to finance the projects based on available resources and the community's projected growth.

The second component is budgeting and financial management, which includes having a separate capital budget, debt management policies, and capital financing policies. The separate capital budget contains appropriation and recommendations for capital projects along with available resources. The