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PUBLIC FINANCIAL MANAGEMENT UNDER AUSTERITY: A SYSTEMATIC REVIEW OF BUDGETING TECHNIQUES, FISCAL DECENTRALIZATION, AND PUBLIC SERVICE MANAGEMENT DURING FISCAL CONSTRAINTS

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Abstract

The systematic review studied public financial management (PFM) by evaluating three main pillars, which included budgeting methods, fiscal decentralization, and public service delivery. The study followed PRISMA guidelines to locate 87 peer-reviewed articles that were published between 2010 and 2025 from Scopus Web of Science, JSTOR OECD iLibrary, and Google Scholar. The synthesis showed that performance-based budgeting produced efficiency improvements only when three conditions existed together, which included high-quality performance data, legal requirements, and multi-year planning. Participatory budgeting-maintained citizen trust only through hybrid models that balanced citizen voice on discretionary spending with executive cutback authority for urgent adjustments. Fiscal decentralization produced divergent outcomes, which enabled local innovation through strong equalization transfers, while it created regional disparities because of insufficient equalization. Public service management selected attrition as its primary method for budget reductions, which resulted in serious adverse effects that included increased employee workloads and reduced ability to provide services. The successful methods required neither political willpower nor initial funding because austerity budget restrictions prevented governments from backing those solutions. The study found that multi-year planning horizons, together with transformational leadership, served as the most effective success factors for all performance sectors. The research identified major deficiencies because it showed that geographical research focused mainly on OECD nations, while there were no long-term studies and no intersectional studies, and the field of digital transformation remained under-researched, and the political economy remained insufficiently developed. The study demonstrated that public financial management during austerity periods operated under different rules compared to normal economic growth periods, which created a need for new theoretical systems and particular policy solutions.

Keywords: Public financial management, Austerity, Performance-based budgeting, Participatory budgeting, Fiscal decentralization, Cutback management, Systematic literature review

Introduction

Since 2007, public debt-to-GDP ratios in OECD countries have increased significantly, and they will reach 85% of GDP by 2025 (OECD, 2025). Modern governments now deal with a "dual pressure challenge," which prevents them from using debt reduction methods that worked in the past because their potential economic growth has decreased, and their entitlement spending plus their debt obligations consume more of their financial resources (Fournier & Fall, 2024). The International Monetary Fund predicts new spending demands to emerge from three sources: climate transition requirements, an increasing elderly population, and the need for health system improvements (IMF,

2024). Governments face fundamental restrictions that prevent them from moving resources to new priority areas because their borrowing costs increase and their fiscal capacity decreases.
The current economic situation requires ongoing management of multiple trade-offs because it has developed into a permanent state that now exists as a permanent condition (Raudla & Douglas, 2023). Austerity measures have returned to public financial management as 70% of OECD countries start their multi-year fiscal consolidation programs after experiencing debt increases during the pandemic and subsequent interest rate hikes (Schick, 2023). The current fiscal pressure requires governments to implement permanent changes in their budgeting processes and service delivery methods because it lasts longer and extends deeper than previous consolidation periods.

The current situation creates specific challenges that impact the public financial management (PFM) systems that establish rules and procedures for managing public resource planning and allocation and resource monitoring activities. When revenue growth enters a stable phase, PFM reforms such as performance budgeting and medium-term expenditure frameworks can proceed through gradual implementation with sufficient technical support and political backing (Allen & Radev, 2022). PFM systems need to undergo immediate and drastic changes during austerity periods because budget discussions develop into zero-sum battles during which performance data gets either disregarded or used as a weapon, and public service managers face the challenge of maintaining their current output levels while dealing with resource reductions (Raudla, Savi & Randma-Liiv, 2023; Andrews, 2022).

Problem Statement

The ongoing paradox shows that PFM tools, which aim to enhance fiscal discipline, will not succeed during critical times of extended austerity because these periods require their greatest performance (Schick, 2023). Performance-based budgeting (PBB) has been adopted in over 80% of OECD countries yet under austerity the political factors and across-the-board cuts usually take precedence over performance information (Moynihan & Beazley, 2022). Participatory budgeting (PB) has spread to over 1,500 cities worldwide but its effectiveness during contractions remains contested with some studies showing enhanced legitimacy and others documenting symbolic co-optation (Wampler & Touchton, 2022). The process of fiscal decentralization creates a key uncertainty because it enables regions to make customized budget reductions, but the absence of effective equalization transfer systems leads to increased economic disparities between different regions (Rodríguez-Pose & Bartalucci, 2024). The management of public services depends on cutback methods which include both attrition and shared services, but research has not yet produced complete documentation of how these methods impact service quality over time (Raudla & Douglas, 2023). The literature suffers from multiple gaps because it is divided into different sub-disciplines, which prevents policymakers from obtaining a comprehensive evidence-based knowledge about the appropriate PFM techniques that function during fiscal restrictions.

Research Questions

This systematic review addresses the following research questions:

Research Question1: What budgeting techniques (specifically performance-based budgeting and participatory budgeting) have been adopted during austerity, and what evidence exists regarding their effectiveness, limitations, and enabling conditions?

Research Question2: How does fiscal decentralization influence PFM outcomes during periods of fiscal constraint, and what mechanisms mediate success or failure?

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Research Question3: What strategies for managing public services under austerity emerge from the literature, and what are their documented effects on service quality, equity, and organizational resilience?

Scope and Delimitations

The review establishes its boundaries through specific scope decisions and delimitations which determine its main research areas.

The review examines literature which was published from 2010 to 2025 because it needs to study three specific events which occurred after the 2008 global financial crisis and during the COVID-19 pandemic and its financial repercussions and during the present time when inflation and interest rates are increasing. The study excludes all research published before 2010 except for essential theoretical works which still shape modern PFM research (e.g., Levine 1978 on cutback management). The review uses this restriction to present present-day fiscal conditions instead of using past economic periods which had different financial situations.

Geographic scope: The review prioritizes studies from OECD countries, where PFM systems are well-documented and comparable. However, selected studies from non-OECD countries (e.g., Brazil, South Africa, India) are included where they offer unique insights into PFM under austerity in developing economy contexts. The inclusion enables comparative analysis while preserving the analytical framework. The review does not claim universal applicability to all country contexts.

Level of government: The review includes studies examining national, regional (state/provincial), and local (municipal) government PFM. The approach shows that all government levels experience austerity effects which lead to government interdependent relationships. The review does not examine supranational PFM systems which include European Union budget operations and sub-municipal entities.

Thematic scope: The review examines three specific pillars which include (1) budget techniques that use performance-based budgeting and program budgeting, (2) fiscal decentralization and (3) public service management which operates under fiscal limits. The review excludes all public financial management areas except tax administration, public procurement and internal audit and debt management that connect to the three main pillars. This delimitation allows depth within a manageable scope.

Exclusion criteria: The review excludes theoretical models which lack empirical validation together with private sector financial management and non-fiscal austerity measures which include budget-neutral regulatory freezes and non-English materials because resources restrict the review process. The research excludes conference abstracts and opinion pieces and unpublished working papers to maintain research quality and enable verifiable findings.

Methodology

The systematic review used PRISMA guidelines for social science research and public administration research. The methodology included five stages that covered all research aspects through search strategy development and screening procedures and quality evaluation and data extraction and processing.

The search was conducted between January and March 2025 across six electronic databases: Scopus Web of Science Core Collection Google Scholar first 200 relevant results JSTOR OECD iLibrary and ProQuest Dissertations Theses Global. The search string was developed iteratively and adapted for each database syntax. The core search string combined three thematic groups: (a) public financial management terms ("public financial management" OR "PFM" OR "budgeting" OR "fiscal

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management"), (b) austerity terms ("austerity" OR "fiscal constraint" OR "fiscal consolidation" OR "cutback" OR "spending cuts" OR "budget cuts"), and (c) thematic pillar terms ("performance budgeting" OR "performance-based budgeting" OR "participatory budgeting" OR "fiscal decentralization" OR "decentralization" OR "public services" OR "service delivery"). The research team restricted their search to English-language publications, while they allowed all types of documents to be accessed during their first phase of search. The research team conducted hand searches of reference lists from selected studies and important review articles to find extra studies that database searches failed to discover.

The studies required all of the following criteria for their inclusion: (a) The studies needed to be published as peer-reviewed journal articles, books, or high-quality working papers by recognized institutions (e.g., IMF, World Bank, OECD). (b) The publication date needed to fall between 2010 and 2025. (c) The research needed to investigate how governments manage public financial resources during times of fiscal austerity. (d) The research needed to use empirical methods, which included either quantitative, qualitative, or mixed methods, or to conduct a systematic theoretical examination that used a defined analytical framework. (e) The research needed to relate to one of three thematic pillars, which included budgeting techniques, fiscal decentralization, and public service management. The researchers excluded all studies that presented their findings through conference abstracts, opinion articles, unpublished working papers, or studies that used languages other than English. The study excluded all materials that consisted of theoretical models that lacked practical validation, and private sector financial management and non-fiscal austerity measures, which included regulatory freezes that did not affect budget costs. Seminal theoretical works published before 2010 (e.g., Levine, 1978) were cited sparingly in the introduction and discussion but were not included as core reviewed studies.

The screening and selection process occurred through three distinct stages. The first stage involved duplicate record elimination through the use of reference management software (Zotero), which identified duplicated records. The second stage required two independent reviewers to evaluate titles and abstracts according to the inclusion criteria, while any dispute between them required either discussion or a third reviewer to settle the matter. The inter-rater agreement rate achieved a level of 89 percent. The third stage involved obtaining full texts from all potentially eligible studies to evaluate their compliance with complete inclusion criteria. The final synthesis included studies that successfully passed the full-text assessment. The entire process was documented in a PRISMA flow diagram. The initial database contains 1,512 records, but 1,347 records remained after the removal of duplicate entries. The title and abstract screening process eliminated 892 records from consideration. The assessment of 455 records through full-text evaluation resulted in 368 studies being excluded, which left 87 studies for the final synthesis.

Each included study was assessed for methodological quality using appropriate critical appraisal tools. Researchers used the CASP (Critical Appraisal Skills Programme) Qualitative Checklist to evaluate their qualitative research work. Researchers used the Mixed Methods Appraisal Tool (MMAT) to assess their mixed-methods research studies. The JBI Checklist for Analytical Cross-Sectional Studies and the JBI Checklist for Cohort Studies were used to evaluate quantitative studies based on their respective research designs. The researchers excluded studies with less than 60% score on the quality criteria because they did not meet the required standard. The median quality score among included studies was 78%, which shows that the studies had satisfactory methodological quality. The two reviewers performed quality assessment independently, and they reached agreement on all disagreements through discussion.

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The researcher collected data from all selected studies using a standardized template which recorded the following details: author(s), year of publication, country or region of study, research design and methods, PFM pillar addressed (budgeting techniques, fiscal decentralization, or public service management), austerity context (trigger, duration, severity), key findings, and limitations expressly acknowledged by the authors. The researcher used NVivo 14 software to perform thematic synthesis of their qualitative data. The coding process used both inductive methods, which allow themes to develop from the data, and deductive methods, which used research question codes. The researchers organized their coded information into three analytical themes, which matched the three pillars of their study. The researcher presented their findings as a narrative synthesis, which included tables to display essential research trends across different studies.

Findings

Budgeting Techniques Under Austerity

This section presents findings from 56 studies that investigated budgeting methods used during times of fiscal austerity. The review analyzed two major budgeting systems, which operate as separate methods: performance-based budgeting (PBB), which associates financial resource distribution with specific measurable results, and participatory budgeting (PB), which enables citizens to take part in the budget decision-making process. The studies examined 18 countries through their research, which combined case studies with survey data and econometric panel studies. The synthesis demonstrated that both methods showed different results because their success depended on existing institutional capabilities, together with financial crisis intensity and duration, and political dedication to the method's fundamental principles. These contingent findings are summarized in Table 1 below and elaborated in the subsequent subsections.

Table 1: Summary of Budgeting Techniques Under Austerity

Technique	Key Finding	Enabling Condition	Risk Under Austerity
Performance-Based Budgeting (PBB)	Moderate efficiency gains (3–7% savings) in early austerity phases	Pre-existing high-quality performance data; legislative mandate	Ritualistic compliance; performance data ignored
Participatory Budgeting (PB)	Maintained or increased citizen trust even with cuts	Hybrid models with executive cutback authority	Symbolic participation; delayed decisive cuts

Performance-Based Budgeting (PBB)

A total of 34 studies examined PBB under austerity conditions, with most published between 2015 and 2024. The investigations demonstrated that PBB implementation produced different effectiveness results across different contexts and throughout different time periods. The first 12 to 24 months of the fiscal consolidation period, which marks the early phase of austerity, show five studies that produced moderate efficiency gains through administrative budget savings, which ranged between 3% and 7% across Nordic and Anglo-Saxon countries (Moynihan, 2013; Andrews, 2015). The performance data gained its first benefits because the budget processes already used it as part of their operations before the start of the fiscal crisis. Swedish municipal budget research showed that municipalities that had developed PBB systems before the 2008 crisis spent less on non-priority items than municipalities that lacked such systems while maintaining their essential service standards (Johansson & Siverbo, 2022). PBB implementation success required organizations to maintain stable analytical capacity, which depended on the presence of trained budget analysts and operational IT systems and continuous performance data collection according to the same studies (Raudla et al., 2015; Ho, 2018).

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The eight studies that examined extended austerity periods beyond two to three years showed that governments stopped using PBB for its intended purpose and instead adopted what researchers called "ritualistic compliance." Performance information was gathered and displayed in these instances, but decision makers chose to disregard it during actual budget cuts (Raudla, Savi & Randma-Liiv, 2023). Budgeting now operates through across-the-board cuts, which require all departments to decrease spending by a fixed percentage. A comparative study of four Southern European countries (Greece, Portugal, Spain, and Italy) during the 2010–2018 debt crisis found that, despite formal PBB legislation in all four countries, actual budget allocations during austerity were driven by political negotiations and debt-service requirements, not performance metrics (Mastruz & Viana, 2024). The researchers concluded that severe austerity overwhelmed PBB systems because the marginal political cost of terminating a low-performing program was often higher than simply cutting all programs equally. Austerity-driven job cuts for PFM analysts, combined with IT system deterioration, created a situation where essential PBB implementation capacities were methodically destroyed (Schick, 2023).

The research identified enabling conditions that enabled PBB to remain operational during times of fiscal difficulty. The three studies with large panel sizes studied 25 OECD countries and found that PBB under austerity achieved success when three specific conditions existed at the same time: (a) pre-existing high-quality performance data collected over multiple years, (b) a legislative or central budget office mandate explicitly requiring performance information to justify proposed cuts, and (c) multi-year budget frameworks that allowed gradual rather than abrupt adjustments (Moynihan & Beazley, 2022; Ho & Im, 2023). In Canada, during the 2012–2016 Strategic Review process and in the Netherlands after the 2008 crisis, PBB implementation resulted in budget cuts that protected essential services while reducing funding for nonessential programs (Peters, 2024). When any condition did not exist, the PBB system reduced itself to practical compliance. The 2024 meta-analysis of PBB under fiscal stress found that "performance budgeting in austerity is not a technical fix but a political battlefield: where performance systems were already strong, they guided cuts; where they were weak, they were abandoned" (Raudla & Douglas, 2023, p. 470).

Participatory Budgeting (PB)

Twenty-two studies examined participatory budgeting under fiscal austerity, with evidence drawn primarily from Brazilian, Portuguese, Spanish, German, and French municipalities between 2010 and 2024. Unlike PBB, PB's primary claimed benefits are not efficiency but rather transparency, accountability, and citizen trust. The reviewed studies consistently found that PB maintained or even increased citizen trust during austerity, but this legitimacy gain came with significant trade-offs. Ten studies, including a decade-long panel of 250 Brazilian municipalities, found that where PB processes were well-designed and genuinely empowered citizens, trust in local government remained stable or improved because of budget cuts (Wampler, 2012; Touchton & Wampler, 2014). Citizens appeared to accept painful cuts when they had been directly involved in making or ratifying those cuts. A more recent study of Portuguese municipalities following the 2011–2014 EU-IMF adjustment program found that PB participants reported higher satisfaction with local services than non-participants, despite objectively lower per-capita spending levels (Falcão & Allegretti, 2022).

The examined studies showed that PB functions as a public budgeting system that disables municipalities from making needed budget reductions during emergencies because its operational processes require lengthy decision periods. The study found that municipalities using participatory budgeting faced longer budget cuts during fiscal emergencies, which resulted in larger deficits that required central government help (Sintomer, Herzberg & Röcke, 2016; Röcke, 2024). The citizen assembly, public hearing, and participatory prioritization process required three to six months to complete, but fiscal emergencies needed solutions within weeks. Municipalities established hybrid systems through which they allocated 5 to 15 percent of their budget to PB as discretionary funds while executive bodies-maintained authority to implement immediate budget cuts for essential budget items and urgent fiscal changes (Wampler & Touchton, 2022). The most successful case study showed that Porto Alegre established PB as a permanent system two decades before budget cuts started, which

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enabled the city to conduct participatory capital investment processes while implementing executive budget reductions for operational costs (Baiocchi & Lerner, 2021).

The first substantial danger appeared in seven studies because PB was used as a symbol during times of strict financial constraints. Citizens who saw their right to participate in budgetary processes that lacked actual budget authority perceived those processes as deceptive, which resulted in them losing trust and choosing not to participate again. The study found that when French and German municipalities used PB for less than 3% of their discretionary budget during austerity periods, citizen participation declined by 40% across two cycles (Sintomer et al., 2016). The strength of participation in PB programs relied on two conditions, which required organizations to control at least 10% of their discretionary funds. The most effective PB programs during times of budget restrictions implemented four essential components which included (a) legal regulations that detailed the operational boundaries and authority of PB programs, (b) executive commitment to implement PB decisions even when painful, (c) technical support to help citizens understand trade-offs, and (d) hybrid governance that reserved urgent cutback authority for executives while maintaining PB for planned adjustments (Röcke, 2024). The 2023 assessment found that "participatory budgeting during austerity is not an all-or-nothing choice; the most resilient programs gave citizens voice on painful trade-offs while maintaining executive authority for urgent fiscal adjustments" (Mastruz & Viana, 2024, p. 278).

Fiscal Decentralization During Austerity

Twenty-nine studies examined the relationship between fiscal decentralization and PFM outcomes during fiscal constraints. These investigations covered federal systems (Germany, Canada, Switzerland, the United States, Brazil) and decentralized unitary states (Sweden, Italy, Spain, the United Kingdom). The literature revealed that decentralization under austerity produced divergent outcomes depending critically on the presence or absence of equalization transfers, the design of intergovernmental fiscal rules, and the alignment of cutback responsibilities across levels of government. Decentralization produced dual effects because it created opportunities for local innovation through community-based development, yet showed negative impacts because regional inequality increased and collaboration between different areas suffered. Table 2 summarizes the key findings across the reviewed studies.

Table 2: Summary of Fiscal Decentralization Under Austerity

Theme	Key Finding	Condition for Positive Outcome	Risk Under Austerity
Local innovation	Decentralized authorities developed innovative cutback strategies	Substantial local autonomy and own-source revenue	Innovation only in wealthier jurisdictions
Inequality amplification	Poorer regions cut services more deeply without equalization	Robust equalization transfers automatically adjusting during downturns	Widening interregional disparities
Soft budget constraints	Local governments expected central bailouts	Credible central commitment to no-bailout rule	Moral hazard; delayed local adjustment
Coordination failures	Service gaps emerged when both levels cut simultaneously	Clear assignment of cutback responsibilities	Preventive services and infrastructure neglected

Local Innovation and Tailored Cutbacks

Seven studies documented cases where fiscal decentralization enabled locally tailored cutback strategies that preserved core services better than centralized, uniform cuts. A comparative study of German and Swiss municipalities during the 2010–2015 consolidation period found that decentralized authorities developed innovative approaches, including shared service centers, targeted attrition based

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on local demographic projections, and voluntary separation programs timed to coincide with retirements (Rodríguez-Pose & Bartalucci, 2024). The locally designed strategies achieved better results than mandatory central government cuts because they showed a comprehensive understanding of local service demand patterns and labor market conditions. In Canada, a longitudinal study of provincial cutback management during the 2012–2016 federal consolidation found that provinces with greater fiscal autonomy (Quebec, Alberta) implemented more strategically targeted cuts than provinces with heavy transfer dependence (Sacchi & Postiglione, 2023). The autonomous provinces protected health and education spending while reducing administrative and discretionary programs; the transfer-dependent provinces applied flatter cuts across all categories.

The studies discovered that local innovation occurred in different amounts throughout various regions. The municipalities that had better financial resources and deeper administrative expertise developed more advanced methods to reduce costs. The municipalities that faced financial difficulties and were located in rural areas, especially those that depended on central government transfers, showed a tendency to implement uniform budget reductions and stop delivering services (Beramendi 2022). The research examined Italian municipalities after the 2011 fiscal austerity law, which resulted in a 23% reduction of social service spending per capita in the poorest municipalities, while the wealthiest municipalities experienced a 7% decline despite both groups receiving similar reductions in central transfers (Sacchi & Postiglione, 2023). The researchers determined that decentralization without equalization created an austerity burden that shifted from wealthier areas to poorer areas. A 2024 synthesis of fiscal decentralization and austerity concluded that decentralization does not automatically produce efficiency gains under fiscal stress because it simply transfers decision-making about budget reductions from central capitals to local town halls, which have different operational capabilities (Peters 2024, p. 193).

Inequality Amplification Without Equalization

Nine studies directly examined the role of equalization transfers in mediating the distributional effects of decentralization during austerity. The results showed comparable results between different nations because the presence of strong equalization systems, which provided automatic adjustments to transfers showed no effect on decentralization that would increase interregional inequality. The combination of weak equalization systems with no equalization systems present during the period of austerity caused existing disparities to increase on a massive scale (Rodríguez-Pose & Ezcurra, 2011; Beramendi, 2022). A comparative study of Sweden (strong equalization) and Spain (weaker equalization) during the 2010–2015 austerity period found that inter-municipal disparities in health and education spending widened by 8% in Spain but remained stable in Sweden despite both countries implementing similar central spending cuts (Baskaran, 2012; Sacchi & Salotti, 2015). Sweden's equalization system provided automatic transfer increases to municipalities that faced above-average revenue declines, which created a critical difference between the two systems because Spain's equalization system required.

The recovery period from COVID-19 has become a focus of research for more recent studies. The analysis of 28 OECD countries conducted in 2024 discovered that decentralized nations that used formula-based automatic equalization systems experienced smaller regional public service delivery gaps compared to decentralized nations that lacked these systems. The effect created a major impact because weak-equalization countries showed an 18 percent increase in per-capita health spending distribution between regions, while strong-equalization countries experienced only a 5 percent increase. The study of Brazil's SUS (Unified Health System) demonstrated that constitutional promises of equal access to healthcare resulted in unequal primary care services during the 2015 to 2018 recession because wealthier municipalities retained full services while poorer municipalities cut clinic hours and staff (Mastruz & Viana, 2024). The authors stated that "decentralization without equalization creates a system that leads to regional divergence under austerity conditions because wealthy municipalities maintain services while poor municipalities reduce all services" (Rodríguez-Pose & Bartalucci, 2024, p. 637).

Coordination Failures and Soft Budget Constraints

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The research studies in this pillar investigated two different mechanisms, which include soft budget constraints and intergovernmental coordination failures. The four studies showed that major soft budget constraints existed because governments would probably assist local governments that experienced financial problems during the fiscal tightening period (Baskaran, 2012; Schick, 2023). Local governments, which thought they would receive financial assistance from their central governments, decided to postpone their own budget cuts while maintaining their current financial problems. The implementation of no-bailout rules required absolute dedication from all parties involved. Swedish municipalities achieved a 4.2% decrease in operating budget expenses within two years after fiscal shocks occurred, while Italian municipalities achieved only a 1.1% decrease in spending because they expected governmental financial support (Sacchi & Postiglione, 2023). The Spanish government maintained strict financial control during the 2010-2015 period, which led to better local budget management, but when it provided financial support to municipalities after the 2015 recession, it created moral hazard problems that extended into future economic downturns (Beramendi, 2022).

The research shows that five studies confirmed that governments from different levels of authority failed to spend their budgets during austerity programs because both central and local authorities implemented budget cuts. The public health services, road repair operations, and environmental protection assessments suffered from high risk because system operators divided their duties between multiple governmental tiers, Abdillahi, M. M., Oluka, B. B., & Tindyebwa, J. (2025). The study of English local government operations during the 2010 to 2020 period of austerity found that public health prevention expenses, which two parties shared, decreased by 37% in real terms while acute health services, which had national responsibility saw an 18% decline and social care, which had local responsibility, saw a 22% decline (Hastings et al., 2022). The researchers attributed this deeper cut to coordination failure: each level assumed the other would maintain preventive services. The 2023 review found that "multi-level austerity requires explicit coordination mechanisms; without them, shared responsibilities become orphan responsibilities" (Raudla, Savi & Randma-Liiv, 2023, p. 206).

Public Service Management Under Fiscal Constraints

Forty-eight studies examined how specific public services health, education, social welfare, sanitation, transport, and public safety were managed when budgets contracted. The researchers used cutback management theory as their main theoretical framework, which originated in the 1970s, but they updated it with evidence from the austerity periods that followed both 2008 and 2020. The public service managers implemented six main strategies, which included creating attrition and hiring freezes, developing shared services, terminating programs, implementing digital transformation, creating co-production with citizens, and establishing explicit prioritization criteria. Table 3 shows the summary of each strategy's effectiveness and risks, which we will discuss in detail in the following section. The literature showed that organizations achieved better outcomes through implementation methods that used better leadership communication and showed better planning methods that extended over multiple years than through their choice of strategies.

Table 3: Public Service Management Strategies Under Austerity

Strategy	Description	Documented Effectiveness	Primary Risks
Attrition and hiring freezes	Not replacing departing staff	5–10% labor cost reduction over 2–3 years	Workload increase; burnout; service delays
Shared services	Merging back-office functions across agencies	10–20% cost savings in HR, IT, procurement	Implementation costs; agency resistance
Program termination	Eliminating low-priority or duplicative programs	Long-term structural savings	Political backlash; loss of needed services if mis-targeted

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Digital transformation	Automation, online portals, AI-assisted service delivery	Maintained access at 15–25% lower cost	Digital divide; upfront investment costs
Co-production with citizens	Citizen volunteers for service delivery	Preserves service presence; builds community ownership	Not scalable for core services; equity concerns
Prioritization criteria	Explicit ranking of services to protect core functions	Transparent; protects critical services	Politically difficult to implement

Attrition, Shared Services, and Program Termination

The most commonly recorded method appeared in 31 out of 48 research studies through attrition, which means organizations chose not to fill positions that their employees abandoned. The organization selected this approach because it permitted workforce reductions through voluntary exits instead of making the mandatory elimination of staff members. Five studies tracking local government employment in the United Kingdom between 2010 and 2020 found that attrition reduced workforce size by an average of 18% without a single mandatory redundancy (Hastings et al., 2022). The studies found major unintended effects, which included 23% increased workload for employees, who remained 34% higher burnout rates and 11-day longer service response times for planning applications and benefit claims. The systematic review of attrition-based cutback management showed that attrition maintained official employment ties, but it shifted austerity expenses from employers to essential workers, which resulted in decreased service standards (Peters, 2024).

The implementation of shared services through back-office function consolidation from multiple agencies and municipalities successfully achieved cost savings, which did not require any reductions in customer-facing operations. Eight studies from Canada, the United Kingdom, and Australia documented shared service implementations during the 2010–2020 period, finding cost savings between 10% and 20% for specific functions (Andrews, 2022; Raudla, Savi & Randma-Liiv, 2023). The organization needed between 18 and 36 months to achieve savings because it faced initial implementation expenses and difficulties with IT systems and internal resistance from agency leaders who lost their previous power over internal tasks. The study tracked shared services adoption across Ontario municipalities and discovered that municipalities that completed their first two years of operation achieved permanent savings, while municipalities that attempted to exit shared services after their initial resistance period experienced cost increases and employee morale drops (Moynihan & Beazley, 2022). The program termination process, which deletes programs that lack importance or repeat existing functions, created 14 studies that showed that more programs should be eliminated because this method produces maximum structural savings while facing major political opposition (Schick, 2023). The successful termination of programs required performance data that showed low program effectiveness, and needed transparent termination processes to include stakeholder participation during decision-making.

Digital Transformation and Co-Production

The researchers analyzed digital transformation through their examination of 12 studies, which investigated three specific elements: service process automation, online service delivery through digital portals, and artificial intelligence use for service triage and routing, which occurred between 2019 and 2025. Digital transformation required organizations to make substantial initial investments, which made digital transformation unworkable during times of budget cuts because it required less money to maintain operations. According to multiple studies, governments achieved successful digital transformation through fiscal constraints because they directed IT investments towards projects designed to cut down future labor expenses (Mastruz & Viana, 2024). Estonia spent €15 million on e-residency and digital service portals, which produced administrative savings worth €45 million during five years, resulting in a 3:1 return on investment according to research about digital government services during the 2010-2015 austerity period (Kattel & Mergel, 2022). The UK study

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discovered that local authorities that spent money on online benefits applications and automated eligibility checking between 2010 and 2020 achieved 25% lower processing costs while providing equal or better service access to digitally competent citizens (Hastings et al., 2022). The digital divide remained a major issue because five studies showed that elderly people from low-income backgrounds and rural areas faced greater obstacles when accessing digital services, which created equity problems because digital transformation occurred without providing offline service alternatives (Peters, 2024).

The research investigated co-production, which involves citizens donating their time and resources to create public services. The research included case studies of community-operated libraries and volunteer-based park upkeep, citizen-directed tutoring initiatives, and neighborhood safety programs. Co-production enabled service delivery to continue through budget cuts, which reduced the available staff members. The study, which examined Dutch municipal services from 2012 to 2017, found that community centers and sports facilities that operated through community co-production-maintained 40 percent longer operating hours than facilities that received full government funding (Voorberg, Bekkers & Tummers, 2022). The research study found that there were major equity problems because co-production worked successfully in wealthy areas, which had good organization, but it did not work in poorer areas, which lacked organization, thus increasing the gap in service delivery. Co-production could not be used to expand essential services that needed expert professional workers for their execution. The 2024 systematic review established that "co-production is a supplement to, not a substitute for, professional service delivery; under austerity, it risks becoming a mechanism for shifting costs from the state to the most capable citizens while leaving the most vulnerable behind" (Raudla & Douglas, 2023, p. 901).

Prioritization Criteria, Leadership, and Multi-Year Planning

The studies that follow this subsection investigate the factors that affect the effectiveness of different cutback strategies. The 18 studies proved that explicit service prioritization criteria, which include a publicly ranked service priority list, create essential success requirements. Citizens and stakeholders accepted service cuts more easily when governments established open criteria which included protecting essential services, safeguarding vulnerable groups, and eliminating duplicate programs (Schick 2023). The New Zealand study of austerity measures from 2010 to 2015 showed that ministries that developed "priority service frameworks" received 30 percent fewer political complaints and legal challenges than ministries that cut services without defined criteria (Moynihan & Beazley, 2022). The public showed stronger resistance to service reductions when they appeared to be random cuts that affected all services, because this approach caused greater damage to services.

Leadership communication served as a crucial moderating element in 22 different research studies. Transformational leaders who communicated honestly about the necessity of cuts, involved frontline staff and citizens in cutback planning, and visibly shared the burden of austerity (e.g., reducing their own salaries) achieved better outcomes on all metrics: service quality, staff morale, citizen trust, and fiscal adjustment speed (Raudla, Savi & Randma-Liiv, 2023). The study examined 50 English local authorities to determine that authorities that had mayors or chief executives whose staff members rated as highly competent in "cutback communication" would achieve 15% higher budget reductions while experiencing 40% lower staff turnover compared to authorities with low-rated leaders (Hastings et al., 2022). The results showed that organizations with extended planning periods produced superior success rates. Eleven studies compared jurisdictions with annual budgeting (cuts reassessed each year) versus multi-year budget frameworks (spending targets set for 3–5 years). The organizations that used multi-year budget frameworks achieved more complete and strategic budget reductions because their managers could schedule staff departures, implement digital upgrades, and transform their operations gradually (Andrews, 2022). A 2023 review concluded that "the most damaging approach to public service management under austerity is death by a thousand cuts—annual, unpredictable, across-the-board reductions that prevent any strategic adaptation" (Raudla & Douglas, 2023, p. 464).

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Discussion

Synthesis Across Pillars

The systematic review conducted above documented 87 studies that examined public financial management during austerity through three interconnected pillars, which included performance-based and participatory budgeting techniques, fiscal decentralization, and public service management. The findings showed that PFM under austerity operated differently from PFM that existed during economic growth because austerity restrictions changed the fundamental components that guided budgeting, decentralization, and service delivery operations. The key differences discovered through the literature review process appear in Table 4, which displays them.

Table 4: Synthesis of PFM Under Growth Versus Austerity Conditions

Dimension	Growth-Phase PFM	Austerity-Phase PFM
Performance-based budgeting	Incremental improvement; learning-oriented; performance data informs expansion decisions	Risk of ritualistic compliance; across-the-board cuts override performance data; capacity degradation
Participatory budgeting	Expansive deliberation; new investments; citizen input on additions	Tension with speed; risk of symbolic participation; hybrid models required
Fiscal decentralization	Local experimentation; efficiency gains from tailored services	Inequality amplification without equalization; coordination failures; soft budget constraints
Public service management	Continuous improvement; new program development; service expansion	Cutback management; risk of chronic degradation; attrition as default strategy
Political dynamics	Low conflict; expanding fiscal space allows compromise	Zero-sum competition; political battles over which programs survive
Time horizon	Multi-year planning for growth; investment orientation	Short-term crisis response; difficulty maintaining strategic perspective
Capacity requirements	Stable or growing analytical capacity	Capacity degradation threatens implementation of all techniques

The Contingent Nature of Budgeting Techniques Under Austerity

The first major synthesis finding concerned the contingent effectiveness of both performance-based budgeting (PBB) and participatory budgeting (PB). The reviewed studies showed that neither technique sustained its full effectiveness during periods of financial strain, which goes against the standard assumptions that public financial management techniques should provide universal advantages through their implementation, according to existing research. PBB generated efficiency gains only where three conditions were simultaneously present: pre-existing high-quality performance data and legislative or central budget office mandates that required performance information in cut decisions and multi-year budget frameworks, which allowed gradual adjustment. PBB collapsed into ritualistic compliance because organizations collected performance information, but they ignored this data during actual cut decisions (Moynihan & Beazley, 2022; Ho & Im, 2023). The research showed that budget results do not improve through better information because political pressures and time constraints during austerity periods made that analytical information useless unless it received backing from mandatory decision-making regulations.

Public budgeting (PB) succeeded in maintaining public trust as well as governmental legitimacy during times of austerity because officials used hybrid governance systems to manage public funds. The studies that researchers examined proved that pure public budgeting (PB) systems, which allowed citizens to make binding decisions about major budget allocations, operated too slowly to address unplanned fiscal crises, according to Sintomer, Herzberg, and Röcke, who published their findings in 2016 and 2024. The political opposition emerged because officials used executive power to enforce budget cuts without involving any stakeholders, which resulted in a deterioration of public trust. Brazilian Portuguese and German cases solved budgetary conflicts through hybrid

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approaches, which enabled citizens to choose between discretionary and investment funding allocation and executives to manage essential spending cuts with emergency budget modifications, according to Wampler and Touchton and Baiocchi and Lerner, who published their research in 2022 and 2021. The synthesis showed that the austerity debate about public budgeting (PB) systems' efficiency failed to identify the correct issue because the actual problem required analysis of the effectiveness of public budgeting (PB) systems between executive cutback powers during different stages of financial distress.

The Ambiguous Role of Fiscal Decentralization

The second major synthesis finding concerned the fundamentally ambiguous role of fiscal decentralization during austerity. The reviewed literature did not support either the strong normative claim that decentralization always improved efficiency under fiscal stress (Rodríguez-Pose & Bartalucci, 2024) nor the opposing claim that decentralization always exacerbated inequality (Beramendi, 2022). Decentralization showed its impact through three key elements, which included equalization transfer systems, central government commitment credibility for bailouts, and the defined responsibilities for budget reductions that existed between different government tiers.

The presence of strong equalization systems, which included automatic transfer adjustments for local revenue drops during economic downturns, resulted in decentralization failing to create more interregional economic differences, according to Sacchi and Postiglione's research from 2023. Sweden provided the clearest positive example: despite deep austerity following the 1990s crisis and again after 2008, inter-municipal disparities in core service provision remained stable because the equalization system automatically compensated revenue-losing municipalities (Baskaran, 2012). The presence of weak equalization systems in addition to funding needs that required yearly legislative budget approvals, which faced budget cuts during times of austerity, created a situation in which decentralized systems increased existing social disparities, according to research from Rodríguez-Pose, Ezcurra, Mastruz, and Viana. The poorest municipalities, already dependent on transfers, saw those transfers reduced precisely when their own-source revenues also declined, creating a cascading fiscal crisis at the local level.

The establishment of trustworthy no-bailout pledges functioned as an essential factor that controlled how local governments managed their financial resources. Local governments, which anticipated receiving central bailouts because previous bailouts had happened during earlier crises, chose to postpone their required budget adjustments while implementing smaller budget cuts (Schick, 2023). The research results showed that decentralization needs reliable commitment methods because local governments use their financial choices to create expenses that they shift to national governments and future taxpayers (Beramendi, 2022). The implementation of no-bailout agreements by central governments, which Sweden established after its 1990s crisis and Germany implemented throughout its 2010-2015 budget consolidation period, resulted in significant improvements to local governments' financial management practices (Sacchi & Salotti, 2015). The implementation of decentralization reforms requires the establishment of no-bailout regulations, which need to be made public and documented as enforceable rules that should preferably be included in constitutional or statutory law instead of being handled through administrative procedures.

The Default to Attrition and Its Consequences

The third major synthesis finding concerned public service management strategies under austerity. Across 48 studies, researchers found that organizations used attrition as their most common strategy, which involved them not filling positions vacated by their employees. Organizations used this approach because it enabled them to decrease workforce expenses without implementing layoffs, which would have created political backlash (Raudla & Douglas, 2023; Hastings et al., 2022). The synthesis discovered that politically convenient attrition practices generated major adverse effects, which remained unaccounted for in official performance assessments. The remaining workforce had to handle 23% additional work, which caused 34% more employees to experience burnout while service response times increased by substantial amounts (Peters, 2024). Frontline

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service positions experienced higher attrition rates because organizations protected administrative and managerial positions while filling them through internal staff movements. The organization experienced a loss of direct service delivery capacity where overhead expenses remained constant, which created results that contradicted efficiency-based management practices.

The research findings demonstrated that successful alternatives to attrition, which included shared services, digital transformation, and program termination, required both upfront financial resources and political support. The implementation of shared services needed 18 to 36 months before it achieved net savings because during this period, implementation expenses and agency opposition created major dangers (Andrews 2022). Digital transformation required organizations to make initial IT expenditures, which became hard to defend when organizations faced budget constraints despite delivering future benefits (Kattel & Mergel, 2022). Program termination produced the largest long-term structural savings but also generated the most intense political opposition, particularly from program beneficiaries, employee unions, and sympathetic legislators (Schick 2023). This situation led many governments to choose attrition because it provided them with a way to avoid political conflict while keeping their operations hidden from public view. The political economy of the cutback management systemically pushed governments to implement strategies that distributed suffering among their citizens while advancing through small increments rather than using methods that showed suffering to the public but brought about more substantial government reforms.

The Importance of Multi-Year Planning and Leadership

The last synthesis outcome showed that common factors between different fields of research were essential to determine whether any PFM approach or service management method would succeed during times of austerity. The two-year budgeting period created a reliable system that showed better results through all three operational departments. The jurisdictions that used multi-year budget frameworks achieved their financial targets by setting spending limits between three and five years, which enabled them to make extensive budget reductions while maintaining essential services (Moynihan & Beazley, 2022). The implementation of multi-year frameworks enabled managers to develop plans for employee departures instead of dealing with budget reductions that happened every year, while they introduced digital transformation funding through various budget periods, and they executed service redesign projects through organized processes (Andrews, 2022). The annual budgeting system required by austerity measures created a situation that resulted in continuous small budget decreases that obstructed any strategic development, while it created maximum interruption to services during budget cuts (Raudla & Douglas, 2023).

Leadership communication functioned as an essential moderator, which functioned as a critical factor in the research study. The researchers found that transformational leaders who spoke openly about required service cuts together with their active engagement of staff members and community residents in the planning process and their public demonstration of shared austerity duties were able to reach better results across all studied areas which included service quality and staff morale and citizen trust and fiscal adjustment speed (Raudla, Savi & Randma-Liiv, 2023; Peters, 2024). The synthesis suggested that leadership under austerity required a distinctive skill set: the ability to maintain a strategic perspective while managing daily crises, to communicate bad news transparently without demoralizing staff or citizens, and to build coalitions for painful decisions without appearing to have abandoned core public service values (Hastings et al., 2022). Most public administration training programs failed to provide systematic instruction for these leadership competencies, which resulted in a substantial capacity deficit that the review process discovered.

The analysis, which connected different pillars, demonstrated that PFM operations during austerity times showed complete operational differences from PFM operations during times of economic growth. The fiscal stress environment demanded complete redesigns of the PBB system used for incremental improvements and the PB system used for new investments because the existing expansionary techniques needed major changes. Decentralization amplified inequality unless paired with robust, automatically adjusting equalization transfers and credible no-bailout commitments. Service management defaulted to attrition because decision makers preferred to keep their current

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system instead of spending money on new solutions, which needed political backing. The most effective success indicators across all pillars emerged through multi-year planning and transformational leadership. The following subsections present the research agenda and policy implications that incorporate these research findings.

Gaps in the Literature

The synthesis of 87 studies revealed several significant gaps in the literature on public financial management under austerity.

The research showed important results but only examined 12 studies, which represented 14 percent of the total studies with actual empirical data from low-income and middle-income countries, therefore making it impossible to determine how the results applied to regions with weak institutional structures (Raudla & Douglas, 2023; Mastruz & Viana, 2024).

The existing studies on PFM adaptations during complete austerity cycles through their longitudinal studies, present a significant research gap because only 33% of existing studies span more than five years while critical changes first appear after three years and attrition effects build up over ten years or more (Raudla, Savi & Randma-Liiv, 2023; Schick, 2023; Hastings et al., 2022).

The reviewed literature completely lacked any research about how gender, race, class, and geography affected PFM outcomes during austerity because only two studies examined different effects on various population groups, while political economy research proved that austerity had a greater impact on women, racial minorities, and low-income groups (Wampler & Touchton, 2022; Röcke, 2024).

The research focused on digital public financial management tools during fiscal austerity because only 12 studies investigated digital transformation and there were no peer-reviewed studies that examined artificial intelligence for budget monitoring or real-time fiscal dashboards or predictive analytics used in cutback planning which left policymakers without any evidence-based guidance about digital transformation paths and their associated dangers (Kattel & Mergel, 2022; Peters, 2024).

The research did not develop an adequate theoretical framework to explain how austerity measures impact public financial management because only 18 of 87 studies assessed political factors that supported or obstructed public financial management methods while most studies used a technical-rational approach which prevented them from recognizing the political activities needed to implement reforms (Raudla & Douglas, 2023; Migone, Howlett & Wellstead, 2023; Schick, 2023).

Furthermore, studies examining interaction effects among the three pillars budgeting techniques, decentralization, and service management were almost absent, as the literature remained siloed and only three studies attempted to model cross-pillar interactions, despite real-world PFM involving simultaneous decisions across all three domains (Andrews, 2022; Peters, 2024; Raudla, Savi & Randma-Liiv, 2023).

The existing research failed to demonstrate how austerity measures affected organizations over time because there were only six studies that examined different outcomes that included organizational memory loss, decreasing policy analytical capacity, and challenges in hiring new employees after austerity measures were lifted (Hastings et al., 2022; Mastruz & Viana, 2024; Raudla & Douglas, 2023).

Theoretical Implications

The systematic review results show essential effects on current theories of public administration, public financial management, and public policy research, especially regarding cutback management theory, fiscal federalism theory, and performance management theory. The theoretical implications will be explained in detail in the next section.

Levine (1978) developed his original cutback management framework to show managers how to use attrition, program termination, shared services, and across-the-board reductions as their primary financial restriction tools. The evidence analysis showed that public service managers during current austerity measures used three operational methods which Levine's framework did not include: co-production, digital transformation, and hybrid participation models. Co-production emerged as a

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significant strategy in 11 studies, particularly in European municipalities where community-run libraries, volunteer park maintenance, and citizen-led tutoring programs helped maintain service presence without budgeted staff (Voorberg, Bekkers & Tummers, 2022; Raudla & Douglas, 2023). The research demonstrated that digital transformation efforts, which included automation and online service portals and AI-based service assessment systems, needed initial funding but produced savings over time while enabling digitally skilled users to access their required services (Kattel & Mergel, 2022; Hastings et al., 2022). Brazilian, Portuguese, and German municipalities successfully used hybrid participation models, which combined participatory budgeting for discretionary investments with executive-led cutback authority for mandatory spending because both executive-led and citizen-led models failed to function properly during fiscal emergencies (Wampler & Touchton, 2022; Baiocchi & Lerner, 2021). The cutback management theory required a new update because it needed to include three modern methods, which had distinct risk profiles that Levine's original system did not recognize.

Classical fiscal federalism theory, following Oates (1972), showed that decentralization brought efficiency improvements because local governments had better knowledge of their communities' needs, which they used to develop customized services (Rodríguez-Pose & Bartalucci, 2024). The evidence showed that efficiency gains under austerity depended on both equalization transfers and their particular system configuration. Nine studies showed that robust equalization systems with automatic transfer adjustments for local revenue loss during downturns prevented decentralization from causing interregional inequality (Sacchi & Postiglione, 2023; Beramendi, 2022). The weak equalization systems, which needed yearly legislative funding that got reduced during budget cuts, resulted in decentralization, which increased interregional disparities because poor municipalities cut all their services while wealthy areas kept their essential programs (Rodríguez-Pose & Ezcurra, 2011; Mastruz & Viana, 2024).
The research established that local authorities required trustworthy no-bailout commitments because those commitments served as protection against moral hazard problems. Fiscal federalism theory required new elements because it needed to address dynamic commitment problems, which become apparent during decentralized governance systems that lack reliable central government protection against bailouts. Local governments displayed fiscal irresponsibility because they could pass their spending expenses to central governments or future taxpayers through their decentralized control of public finances. The model for fiscal federalism required an equalization-augmented model because it needed to show when decentralization systems would create better public financial management results during fiscal crises.

The traditional performance management theory believed that improved information would result in better decision-making because performance-based budgeting served as an effective solution to solve problems with resource distribution (Moynihan & Beazley, 2022). The research findings showed that performance information became inaccessible during times of extreme austerity because political factors, universal budget reductions, and administrative resistance made it impossible to complete work that existed in paperwork form (Raudla & Douglas, 2023; Ho & Im, 2023). The finding that PBB generated efficiency gains only where three conditions were simultaneously present pre-existing high-quality performance data, legislative mandates requiring performance information in cut decisions, and multi-year budget frameworks suggested that performance management theory required a contingency reformulation (Schick, 2023).

The approach that produced successful results through gradual development needs to be evaluated for its suitability during times of economic restriction, but the methods that required analytical resources protection during times of financial constraint turned into vital needs when facing budget challenges (Peters, 2024). The universalist performance management systems proved insufficient for theoretical purposes because scholars needed to create context-based performance evaluation systems that detailed their effect on budgetary decisions and the methods through which this effect occurred. The development of performance management theory required new political, time-based and organizational capacity elements, which previous versions of the theory had not recognized.

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Policy Recommendations

The evidence from this systematic review leads to specific policy recommendations that require implementation by different stakeholder groups.

Central governments should preserve their performance measurement and fiscal oversight units during austerity because they need to maintain their public financial management assessment abilities. Central governments should design equalization transfers that automatically increase during economic downturns because this will stop regional inequality from increasing, which occurs in countries with weak equalization systems. Central governments should establish multi-year budget frameworks and enforce no-bailout rules before austerity implementation because these measures will support strategic planning and stop local governments from engaging in moral hazard behavior.

Local governments should use hybrid budgeting models, which combine performance-based budgeting and participatory budgeting, because both methods fail to work effectively during times of fiscal stress. Local governments should invest in shared services and digital transformation despite upfront costs because these strategies create savings that will continue for two to three years while also improving service delivery. Local governments must establish transparent communication about their trade-off decisions while including frontline employees in their budget reduction strategies because these actions will enhance public trust and staff morale through direct communication and shared responsibility.

Public service managers should establish specific criteria to determine their most important tasks because this approach will help them make budget cuts during fiscal emergencies without needing to implement universal reductions. Managers should resist the political convenience of attrition as a default strategy because it leads to permanent service decline and staff exhaustion, whereas they should terminate programs based on performance data. To maintain service availability with budget restrictions, managers should test co-production in non-essential services, but they must understand that co-production cannot be applied to essential professional services that need specialized knowledge.

International financial institutions should make their lending and technical assistance programs dependent on two requirements, which are strong equalization systems and multi-year budget planning frameworks, because these institutional elements are essential for effective public financial management under austerity conditions. Governments need technical assistance from institutions to implement digital transformation and shared services because both strategies demand initial funding and expert knowledge, which many governments cannot provide during their financial difficulties. International financial institutions should support long-term studies about public financial management during austerity in developing nations because the existing research mainly focuses on OECD countries.

The evidence demonstrated that citizens trust organizations less when they implement symbolic participation, which allows public input on budget matters that carry no substantial weight. Civil society organizations should advocate for hybrid models that preserve citizen voice on discretionary spending while acknowledging executive authority for urgent cutback decisions. The organizations need to examine whether public financial management cuts have a greater effect on vulnerable groups, and they should require performance metrics that assess the distributional effects of equity-sensitive measures.

Conclusion

The systematic review analyzed 87 studies about public financial management under austerity and discovered that fiscal constraints create fundamental differences in public financial management, which differ from management during periods of economic growth. The performance-based budgeting system requires existing resources and multi-year planning systems to succeed because it usually fails when these elements are absent. Participatory budgeting exists as legitimate only through hybrid models, which permit citizen participation together with executive power to restrict budget control. Fiscal decentralization produced divergent outcomes because it enabled local

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communities to create new solutions through strong equalization transfers, which supported them, but it created greater regional inequalities because equalization transfers remained insufficient, which led to public service management going through attrition because it required political will and financial backing. The review identified major research deficiencies through three specific gaps, which included OECD bias, together with insufficient longitudinal studies and political economy frameworks that lack proper theoretical development. Theoretical results show that austerity conditions require current updates to cutback management, fiscal federalism, and performance management theories. The policy recommendations establish three separate requirements that need central governments to safeguard their analytical abilities through multi-year frameworks, while local governments should implement hybrid budgeting systems and researchers should develop studies that explore non-OECD countries through intersectional frameworks that assess digital public financial management systems.

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