Performance Budgeting: Informing Hard Choices Facing the Nation

Statement Prepared by Paul L. Posner Director, Public Administration Program George Mason University

Hearing before the Senate Budget Committee October 29, 2009

Performance Budgeting: Informing Hard Choices Facing the Nation

Paul L. Posner George Mason University

Mr. Chairman and Members of the Committee

I appreciate the opportunity to appear before you today to share my views on the prospects for performance budgeting, both in the Executive and the Congress. Your decision to create a Task Force on Performance, chaired by Senator Warner, marks an important step forward for this committee and the Congress as a whole in integrating a performance perspective into the budget process.

As it begins its work, it will be important for the Task Force to assess where we are with performance budgeting at the federal level. In fact, the years since 1993 have been marked by considerable progress, particularly at the agency level. Initiatives to integrate and link performance data with budget presentations and decisions have been emphasized through two successive Administrations, and the Obama Administration has reaffirmed its importance in their management agenda. In response to both the Government Performance and Results Act (GPRA) and the Program Assessment Rating Tool (PART), agencies have responded by producing a supply of valuable performance information, metrics and plans.

The challenge now involves stimulating the demand for that information on the part of budget decision makers in both the executive and the Congress. This Committee has an opportunity to play an important role in the next stage of evolution of performance budgeting. As the nation faces increasingly wrenching fiscal choices, performance assessments and reviews can become a valuable tool to sort out competing claims on the increasingly constrained fiscal resources of the nation. While never easy, a performance informed approach can, in effect, take advantage of fiscal necessity to make reforms and address long standing performance challenges and weaknesses in federal programs.

The Surprising Staying Power of Performance Budgeting

Performance based reforms have had a long history in the United States at all levels of government. Often led by state and local initiatives, public administrators at all levels have become gripped by waves of performance reforms intended to improve performance and enhance public confidence in government. Ushered in with great expectations, reforms such as Planning-Programming-Budgeting, Zero Based Budgeting, and Total Quality Management, achieved significant improvements but are widely acknowledged to

have fallen well short of their mark in institutionalizing a sustainable focus on performance within government over the longer term. This checkered history of reforms encouraged a certain amount of cynicism about the efficacy of performance management to achieve lasting success in government.

One lesson learned from these past initiatives is that the ultimate success of performance reforms will be predicated on their integration with the most important process engaged in by public managers every year – the budget process. The introduction of performance goals and metrics into the budget process gained the moniker of "performance budgeting" and this has become a fundamental feature of current performance reforms at federal, state and local levels of government, as well as in most OECD nations. ²

While the linkage of performance plans and metrics with budgeting was viewed as critical to the success of performance management, few really examined what this meant. Indeed, most simply treated performance budgeting as a proverbial "on-off switch" - you either did it or you didn't. In reality, performance budgeting is more like a dimmer switch, with a continuum of different strategies to link budget decisions to performance data:

- Presentations Budgets are infused with information discussing the performance consequences of budget decisions. The presentations can be linked at both the individual account level in the budget or at the aggregate performance plan goal level.
- Budget Restructuring The fundamental basis of budget decisions budget accounts are reorganized to reflect performance goals. This can reinforce the shift in focus of budgeting from inputs to performance outcomes.
- Performance reviews and assessments- Formal assessment processes, such as PART, evaluate how well programs and operations are meeting performance goals and outcomes
- Performance targets Agencies have targets that are set in either outcome or output terms for performance for the coming year which are integrated with the budget request and appropriation.
- Performance linked funding Under this approach, resource allocation decisions
 are driven in some mechanical way by performance levels and comparisons.
 Agencies achieving greater efficiencies by producing at higher levels get higher
 payments, while those falling short experience budgetary reductions. This
 approach is what many advocates of performance budgeting envision, but is
 typically the most difficult to implement.
- Outcome based budget formulation Several jurisdictions have sought to go beyond the confines of traditional agency-centered models of budget formulation to establish outcomes rather than agencies as the primary decision unit for the budget process. The state of Washington notably was among the first to initiate

¹ U.S. General Accounting Office, <u>Performance Budgeting: Past Initiatives Offer Insights for GPRA</u> Implementation (Washington, D.C.: GAO, 1997)

² Organization of Economic Cooperation and Development, <u>Performance Information in the Budget Process: Results of the OECD 2005 Questionnaire</u> (Paris: OECD, 2005)

this reform, with the help of David Osborne and other consultants with Public Strategies Group.³

Regardless of the form that performance budgeting takes, it is important to have realistic expectations about what such reforms can accomplish. The integration of performance information cannot, and should not, be expected to "take politics out of budgeting" or to supplant the judgment of performance evaluators and analysts for elected officials. There are too many other important criteria that properly belong in budgetary debates, including judgments about equity, needs and the relative priorities given to competing claims.

Some argue for a mechanical model of performance budgeting -- if performance goes up, the agency or staff get rewarded with increased resources, if it goes down, they get penalized. While appealing on first glance, such a model presupposes that there is a single budgetary answer to performance trends, when in fact there are many. Thus, for instance, if the number of drug abusers goes up, it is unlikely that we would penalize drug programs with a loss of funds. In fact, we may find that increased funding is necessary to bring about performance improvements, along with other needed management and program reforms.

The goal of performance budgeting should not be to provide the **answers** to inherently political choices in the budget process but rather to provide a new set of **questions**. The shift in the agenda for the budget process could be expected to bear fruit in a more informed debate that adds performance goals and results to the other important issues addressed in annual resource allocation debates.

Recent History of Reforms

The federal government has experienced a sustained period of over 16 years where performance management and budgeting initiatives have taken root and become sustained through different Administrations and Congresses. Beginning with the passage of the GPRA in 1993, agencies in particular have found performance goals and metrics to be useful to achieve their own internal management and organizational goals. Other actors, such as OMB and some in the Congress, have also viewed the performance agenda as a key strategy in their oversight and review of programs and agencies.

The Government Performance and Results Act

The enactment of the Government Performance and Results Act (GPRA) in 1993 began a period of reforms in performance management and budgeting that have been sustained to this day, surprising even its advocates with its staying power. The Act conceived of a phased implementation process beginning with performance planning at the agency level which would lead to budget integration at some future point. It was felt that agencies needed to first develop a credible "supply" of goals, measures and data through plans and

³ This reform formed the basis for David Osborne's book with Peter Hutchinson, <u>The Price of</u> Government(New York: Basic Books, 2004)

reports before such information would be taken seriously in the crucible of the budget process.

GPRA has ushered in a period where performance information and justifications have become widely accepted in federal agencies, in OMB reviews and even, sporadically, in certain committees of the Congress itself. GAO's periodic survey of federal employees, similarly reports growth in the availability of performance information and measures, although the use of the information to make decisions remained a challenge. ⁴ The surprising staying power of GPRA is partly due to its statutory origins, as reformers realized that past initiatives undertaken without the support of the Congress failed to transcend the terms of their executive political champions

The Bush Administration built on the GPRA infrastructure to carry performance budgeting initiatives further along the continuum. While the agencies had made progress in developing the "supply side" of performance plans and measures under GPRA, the demand for this information by budget decision makers proved to be episodic at best, particularly in the Congress.

The Bush Administration sought to strengthen the linkage of performance with budgeting. First, they encouraged agencies to restructure their budget presentations and underlying account structures to better align budget resources with performance goals. Beginning with the fiscal year 2005 budget, OMB required agencies to submit a "performance budget" that would integrate the annual performance plan and the congressional budget justification into one document. For instance, the Department of Veterans Affairs sought to consolidate budget authority for its burial program from separate operating, construction, and grant appropriations accounts into a single account. While framed as a strategy to promote the GPRA agenda of linking plans with budgets, this initiative was viewed by appropriators and some agency managers as laying down the proverbial gauntlet by eliminating traditional information presentations that long served as the foundation for congressional appropriations and oversight. ⁵

The Program Assessment Rating Tool

The Administration's Program Assessment Rating Tool (PART) added a program review and assessment component to performance budgeting. The PART initiative was justified as a way to promote greater attention to the performance perspective that was originally fostered by GPRA. Moreover, the initiative also was premised on the need to transcend the traditional focus of budget process from one that focused disproportionate attention on incremental changes to existing programs to a process where the base itself is

⁴ Bernice Steinhardt, <u>Government Performance: Lessons Learned for the Next Administration on Using Performance Information to Achieve Results</u> (Washington, D.C., GAO, 2008, GAO-08-1026T

⁵ U.S. Government Accountability Office, <u>Performance Budgeting: Efforts to Restructure Budgets to Better Align Resources With Performance</u> (Washington, D.C.: GAO, 2005) GAO-05-117SP

periodically reexamined. Given the fiscal challenges facing the nation both now and over the longer term, such a periodic reexamination can be healthy for any political system. ⁶

The PART process consisted of a series of questions rating the purpose and design, planning, management and results of each program in the budget. To date, OMB has assessed the performance of nearly 1000 programs, covering 96 percent of all programs in the budget.

While PART can be viewed as building on GPRA, there are differences to be sure. PART constituted a more active strategy, where performance information would form the basis for explicit judgments of a program's effectiveness that would become part of the Presidential budget formulation process. Moreover, while GPRA plans and metrics were largely developed by federal agencies themselves, PART marked a significant shift in control of the performance agenda from the agencies to OMB. It was the President's budget agency that designed the process and made the final judgments on program assessments, with the active participation of the agencies. At least in the initial years of implementation, agencies were encouraged to replace GPRA goals and measures with those developed under PART, substituting OMB's judgment for that of the agencies.

The PART process has itself been assessed by GAO and others in the federal community. The process did make performance assessments a more explicit feature of OMB budget reviews and provided agencies with a powerful incentive to improve their performance data and measures, if for no other reason than to protect themselves in this review process in the future. ⁷ However, the PART process also raised vexing questions about the ability of any process to develop the appearance of a "bottom line" rating for complex government programs. Given the multiple purposes and goals reflected in most programs, OMB staff invariably had to make judgments on how to answer yes/no questions on such issues as whether the program was effective in reaching its goals and whether the costs of the program were reasonable. Notwithstanding claims that PART rests on "objective" ratings, this is often not possible in the high stakes world of federal budgeting where multiple stakeholders have their own interpretations of seemingly straightforward numbers. A single program often has multiple performance goals and a single performance indicator, whether it is trends in drug abuse, serious crimes or welfare caseloads, is subject to multiple interpretations about what the performance data mean and how it should be used in making decisions.8

Moreover, the PART process focused on relatively narrow budget accounts and activities as the unit of analysis for its assessments. While having the advantage of tying into the building blocks for the budget, this focus lacks the breadth to capture the broader

⁶ U.S. Government Accountability Office, <u>21st Century Challenges: Reexamining the Base of the Federal Government</u> (Washington, D.C.: GAO, 2005) GAO-05-325SP

⁷ U.S. Government Accountability Office, <u>Performance Budgeting: PART Focuses Attention on Program Performance</u>, but More Can Be Done to Engage Congress (Washington, D.C.: GAO, 2006, GAO-06-26)

⁸ U.S. Government Accountability Office, <u>Performance Budgeting: Observations on the Use of OMB's</u> Program Assessment Rating Tool for the FY 2004 Budget (Washington, D.C.: GAO, 2004, GAO-04-174)

outcomes achieved by federal programs. Whether it be providing low income housing, food safety or job training, the outcomes achieved by the federal presence are typically promoted by a number of related budget activities and programs.

The experience with PART suggests that any assessment will invariably reflect the interests of the entity that controls the process. As part of the President's budget preparation, PART clearly must serve the President's interests. However, this meant that the broad range of actors who play a critical role in budgeting, particularly Congressional appropriators, perceived the underlying data as reflecting the President's judgments, rather than those of a broader community of experts and other interested parties. The long history of performance budgeting initiatives have taught us that sustained use of performance data occurs only when the performance goals and data are perceived to have credibility – which is often arrived at through a longer term consensus building process within a policy community.

I might add that most efforts to integrate performance information into budgeting suffer to some degree from the absence of open collaboration with stakeholders and the Congress, reflecting the closed nature of the executive budget process where deliberations are considered to be "predecisional" and not subject to public disclosure our debate. This is true not only for the budgetary figures and decisions themselves, but also for performance data and plans that are part of the budget formulation process – whether it be the PART scores of the Bush Administration or the performance plans of the Clinton Administration.

Consequences of performance reforms

The performance test for management reforms is whether they produce sustainable results in decisions and program implementation. From this vantage point, the federal agencies in fact have demonstrated real progress in using performance information to manage their ongoing activities. Whether it be framing new ways of thinking about goals, or assessing and overseeing employees, contractors or grantees, performance data have given the agencies powerful new tools to reach their goals. For instance, federal agencies are using outcome data to allocate their own staff to areas needing greatest attention. Grant making agencies are using performance outcomes achieved by grantees as a basis for providing bonus funding rewarding those state and local projects achieving notable results.

Leading examples illustrate the payoff from performance management and budgeting for agency effectiveness and accountability: $\frac{9}{}$

 Coast Guard realized major reductions in accidents under its marine safety program. The advent of performance analysis prompted a shift from monitoring the number of inspections and condition of marine vessels to a focus on the reasons for underlying trends in accidents. Finding that human error and industry

⁹ Harry Hatry, Elaine Morly, et.al. *How Federal programs use outcome information* (Washington, D.C.: IBM Center for the Business of Government, 2003)

practice were primarily responsible for safety outcomes, the agency worked with marine industry on training programs. The result was a dramatic cut in the numbers of accidents per 100,000 employees from 91 to 27 over four years.

- FDA's office of generic drugs used performance targets and monitoring to reduce the time to review generic drug applications. As a result, the percent of applications reviewed within 180 days went from 35 to 87 percent. In addition to tracking overall progress, performance data were used on a real time basis to monitor workload across units, enabling the agency to break through bottlenecks by shifting work to less burdened units.
- Veterans Administration health care reformed its delivery system by using health
 outcomes as the basis for defining outcomes to be achieved by its 21 health
 services networks. The underlying trend data were used both as a basis for
 funding the networks but also to analyze best practices. The analysis of cardiac
 surgery outcomes among VA health care units, for instance, promoted the
 introduction of best practices throughout the system, leading to reduced morbidity
 in cardiac procedures.
- The National Highway Traffic Safety Agency used performance data to show the increases in seat belt use flowing from the "Click it or Ticket" safety belt program in three states. Performance data documenting the effectiveness of this strategy prompted its adoption by most states in the country, leading to dramatic increases in safety belt usage throughout the nation.

Were Do We Go From Here?

PART and GPRA established the valuable expectation that performance will inform budget decisions. Continuity is important – the attention devoted to performance information by both Clinton and Bush Administrations have prompted agencies to take the generation of goals and measures and data more seriously. The new Administration is moving to continue the momentum, albeit with its own imprint. For instance OMB's October 7 directive outlining a strategy to increase the focus on program evaluation in federal agencies is a promising start to strengthening federal evaluation research and data.

The question is – how do we build on the recent reforms to establish a performance budgeting process that will be sustainable and relevant over the longer term? In our system of separated institutions sharing powers, sustaining and enhancing performance budgeting must of necessity involve the President, the agencies and the Congress itself. To be sustainable, performance initiatives, accordingly, must be Janus-faced, accommodating various dimensions and emphases to satisfy the numerous accountability interests and actors in our system of government. Thus, the agencies will find performance useful to monitor program management and justify programs. OMB will use performance data as a tool to review and prioritize funding requests from agencies. As

will be discussed below, the budget committees might adopt a more crosscutting focus for performance transcending the boundaries of individual programs and even agencies.

Taking this into account, I will conclude with some suggestions for initiatives that can advance and sustain the multiple uses of performance information in budgeting across federal agencies, OMB and the Congress going forward.

Strengthening the foundations

The foundation for performance budgeting must continue to be strengthened at the agency level. This entails continued development of credible performance measures, data and plans to foster greater confidence by decision makers that is a precondition for the use of this information in budgeting. Make no mistake, this is a long term enterprise and not all agencies have reached this level. It is only when such information is perceived to be fair, balanced, comprehensive and accurate that it will be taken seriously as a new input to an inherently political process.

Ideally, integrating performance information into budgeting should occur as part of the dialogue about proposed budgets between OMB, the agencies and congressional committees. One would hope that the debate over resources would not only focus on dollars and inputs but on whether proposals can or have met discrete performance goals and targets. This kind of performance based dialogue can be promoted by continued efforts to reconstitute agencies' budget presentations and account structures to improve alignment of the budget presentations with performance goals and strategies. This may very well include not only improved presentations but restructuring of basic budget accounts and activities that form the backbone of the budget formulation process.

As other nations have discovered, when the basic choices in budgeting are reframed in performance terms, the debate over budget formulation may take on a greater performance orientation as well. Congress has resisted such initiatives before, partly on the grounds that the new account structures threaten to eliminate information and support about the inputs of programs, e.g. numbers of staff, status of contracts, which are vital to effective congressional oversight of the executive. Accordingly, any restructuring of agency budget presentations and accounts can be expected to be additive, supplementing rather than replacing traditional information and controls.

Building a strategic focus for budgeting

As we think about the priorities of government, it has become more apparent that the important goals and objectives of policy cut across the narrow confines of budget accounts, bureaus, and departments at the federal level. For instance, nearly one half of FY 2009 budget authority for homeland security is provided by numerous agencies outside the Department of Homeland Security. Indeed, most of the major missions of government transcend the boundaries of the federal government itself, requiring partnerships with state and local governments, nonprofit organizations and private for profit firms.

In fact, GAO's work points to systemic fragmentation and overlap across government agencies and programs serving common objectives. Often the product of adaptive responses to emerging problems, the common response has often been the proliferation of responsibilities and programs, perhaps targeted to a new clientele, or involving a new program delivery approach or even simply merely layered onto existing systems and programs

A focus on outcomes lends itself to a cross cutting focus, as achieving most outcomes engages the resources of many agencies and nonfederal actors alike. The traditional unit of analysis in budgeting, however, is the budget account and the federal agency, with little cross over to recognize the crosscutting dimensions of performance. The focus of GPRA largely reinforces this by emphasizing the preparation of plans by agencies and bureaus within departments.

However, the GPRA also included a requirement for the President to prepare a governmentwide performance plan. Such a plan could begin to reframe budget decisions by providing information on performance for the broad mission of government that cut across traditional agency lines. For the most part, this plan has not been forthcoming. Only once in 1998 did OMB prepare a presentation by budget function – the nearly 20 major mission areas of government. This presentation illustrated how the value of such a process by presenting the outcomes for major federal agencies sharing responsibility for common mission areas. For instance, the Natural Resources and Environment chapter included an extended discussion of the many agencies involved in federal land management, presented in the context of three governmentwide federal land management goals: protecting human health and safeguarding the natural environment; restoring and maintaining the health of federally managed lands, waters, and renewable resources; and providing recreational opportunities for the public to enjoy natural and cultural resources. Moreover, the discussions included not only discretionary programs but the involvement of other tools of government such as tax expenditures and regulations in promoting the broad missions of the government. 10

Reconstituting program assessment

With federal budget deficits forecast as far as the eye can see, some kind of periodic assessment of federal program results will continue to be an important dimension of performance budgeting in the years to come. While the PART sparked such a review process, it is an ideal time to rethink the assessment process. As all programs in the budget have gone through at least one review cycle, simply continuing the current process through yet another round of assessments would not constitute the best use of scarce analytic resources in the agencies and the budget community. The completion of the cycle of PART reviews, instead, should provide the occasion to refocus the attention of the budget community on a broader, yet more targeted assessment process that would be more inclusive and open than PART has proved to be. The process I have in mind would refocus assessments on the broader outcomes that individual federal programs are

¹⁰ Government Accountability Office, <u>The Results Act: Assessment of the Governmentwide Performance</u> Plan for FY 1999 ((GAO-AIMD-GGD-98-159, 1998)

attempting to influence together, building on the results of both GPRA planning and individual PART reviews.

The experiences of other nations can be examined to help us rethink our own process. In the Netherlands, reconsideration reviews are conducted on both particular programs as well as broader crosscutting areas selected for each budget cycle, with participation by working groups of central budget and departmental staff as well as external experts, resulting in a public report with recommendations to be considered. According to OECD, the process has been in place since 1981 and has lead to significant savings as well as many reforms of major policy areas. ¹¹ In their broader crosscutting reviews, which they call Interdepartmental Reviews, their system is different than PART in several respects. First it is selective, with about 10 reviews each year. Second, it has a broader focus as reviews address an entire policy area or governmentwide management concern. Third the reviews are more collaborative involving a partnership the budget office, agencies and outside researchers and academics.

Our own recent experience as well as that of other nations suggests it is time to consider a revised assessment process within the context of continuing and enhancing the connection between performance planning and budgeting. Such a process should include the following elements:

- Targeting future assessments based on such factors as the relative priorities, costs, and risks associated with related clusters of programs and activities addressing common strategic and performance goals. More selective reviews would help ration scarce analytic resources as well as focus decision makers' attention on the most pressing policy and program issues.
- Adopting a broader unit of analysis keyed to program outcomes, not budget
 accounts. PART's focus is overly narrow and fails to focus attention on the most
 important areas for governmental policymaking the relative contribution of
 different programs and tools to policy outcomes. Thus, rather than producing
 separate reviews of the many different job training programs in differing budget
 years, a more comprehensive review process would cover all significant programs
 together in one assessment. Such a review should cover all significant
 governmental tools address broader outcomes, including the more indirect tools
 such as tax expenditures and regulatory programs.
- Establishing a more open process that is more independent of OMB and the agencies. The Netherlands process entails reviews by committees often chaired by independent experts, with participation by budget and agency officials. There are many options to open up the assessment process here. One option that could be considered would be to anchor the process in a nonprofit organization while guided by OMB and the Congress. While including a broader base of stakeholders, such assessments must be truly independent and neutral to attain the credibility necessary to influence budgetary decisions.

¹¹ OECD, <u>Reallocation: The Role of Budget Institutions</u> (Paris, OECD: 2005)

Engaging the Congress

Mr. Chairman, it is vital that such a revised assessment process engage the Congress. Given the strong role Congress plays in both budgeting and management oversight, Congressional involvement will prove to be vital in reinforcing the importance of performance assessment and ensuring that such a process reflects a broader base of values and interests.

It is important to note that Congress is not the performance wasteland that some critics suggest. GPRA itself was the creation of the Congress and, Congressional oversight committees have retained a vital oversight interest in monitoring progress. Authorizing committees include performance targets in legislation and often focus on how well agencies are meeting goals and performance expectations. ¹²Appropriations reports are replete with congressional expectations for performance, often requiring monitoring of agency workloads and outputs. It is true that appropriators have generally not been as supportive of outcomes and have been resistant to executive attempts to restructure long standing budget accounts and presentations, partly because these initiatives threatened to eliminate information on inputs and staffing that is vital to congressional control of spending.

The Unique Role of the Budget Committees

The Budget Committee has an important potential role to play in the advancement of performance based budgeting. The other committees have a programmatic or management orientation that has been engaged episodically in reviewing performance in recent years. However, only the budget committee has the breadth to adequately address the most important performance outcomes that we as a nation seek to achieve. The most important outcomes cut across programs and committees, yet to date we have had sustained a systematic focus on these broader questions either in the Congress or the Administration.

I would argue that the time is ripe for the Budget Committee to play a more prominent role in the performance arena. Pressures to cut deficits and debt levels will be resurgent as the economy sustains its recovery from the great recession. I don't need to tell you that, even once the economy fully recovers, deficits will once again begin to swell with the baby boom retirement and health care costs in full swing. Unlike the current high deficits, we will be forced to confront this next round of deficits to avoid ruinous rounds of inflation and currency depreciation. The high ownership of federal debt by foreign creditors will only accentuate these pressures, possibly in the near term, as nervous investors continually recalculate the relative risks of owning U.S. Treasuries with other financial assets throughout the world.

(Washington, D.C.: CRS, 2001).

¹²A Congressional Research Service report found that mentions by Congressional authorization committees grew to the point where 76 public laws from the 106th Congress (1999-2000) contained statutory or committee report language relating to GPRA and performance measurement Virginia A. McMurtry, Government Performance and Results Act: Overview of Associated Provisions in the 106th Congress,

We know that we will have to make hard choices involving spending and revenues in the relatively near future to confront these fiscal challenges. A performance assessment process may help lay the groundwork for making choices that not only resolve underlying fiscal deficits but also promote improved performance by reexamining existing program commitments. Ideally, such a process would consider the entire portfolio of federal programs and activities addressing similar goals and outcomes. The process would ask such questions as:

- Which goals and programs are most important to the nation?
- Which programs and policies show the greatest effectiveness in achieving these goals?
- Which programs offer greatest efficiency in achieving goals at least cost?
- Which programs are considered to best achieve goals of fairness and equity in the distribution of benefits and costs?

Currently, however, the ability of policymakers to conduct such an annual review process is circumscribed by the structure of the budget process itself. Their ability to compare competing claims relating to common goals across programs and tools of government is highly constrained. There are profound institutional barriers to making tradeoffs between spending programs across different agencies and committees. While the declining share of budgets devoted to discretionary spending are reviewed each year, there is no such annual review for the largest pieces of the budget – entitlements and tax expenditures. Tradeoffs between spending programs and tax expenditures are strongly discouraged, even though both tax credit and spending programs both address common purposes such as financing higher education, child care, job training, low income housing and research and development. The differential ownership of these tools by different congressional committees and federal agencies constitutes the most significant barrier. For instance, the low income housing tax credit – the largest federal subsidy for new low income housing construction – has not even been discussed in HUD's performance plan.

However it is designed, a revitalized allocation process in budgeting will be increasingly important as the fiscal constraints becoming more binding in the future. As health and Social Security continue to eat away at the discretionary room in the budget, there will be fewer resources to respond to new and emergent problems and issues in a dynamic society with a growing population. A healthy budget process should review older claims and programs periodically to free up new resources to fund emerging priorities and programs. Ultimately, a reinvigorated public debate about the level of taxation necessary to support a dynamic and aging society will be necessary as well.

Portfolio Assessments

-

¹³ U.S. Government Accountability Office, *Government Performance and Accountability: Tax Expenditures Represent a Substantial Federal Commitment and Need to Be Reexamined*, GAO-05-690, 2005.

The Budget Committee Task Force might start by doing selective assessments of the portfolio of programs addressing common outcomes across the government. Such assessments can review the relative contribution of multiple programs to overarching program goals, e.g. improving food safety, or providing for low income housing, and should include all major tools of government used by the federal government to reach those broad outcomes, including tax expenditures.

The Budget Committee is ideally positioned to lead the way in undertaking these crosscutting assessments. The Committee not only has a governmentwide perspective, but also uses budget functions as the building blocks for the budget resolution. Functions and subfunctions serve as a proxy for broad missions of the government that can be the foundation for conducting systematic performance assessments of the myriad of programs and tools addressing these missions. Moreover, the annual budget focus gives this Committee a routine responsibility that can be coupled to the performance assessment process.

Mapping all related programs contributing to broad outcomes is itself a major research project. But there is help in both the GAO and CBO who have extensive institutional knowledge about the federal programmatic terrain. The following three areas could be promising candidates for reviews. GAO research suggests that each of these areas deals with important national outcomes through a myriad of uncoordinated and stove piped programs that need greater focus, coherence and, possibly, consolidation:

• Food Safety – GAO has long identified fragmentation in the nation's food safety inspection system which causes significant performance shortfalls and quality control problems. Fifteen federal agencies collectively administer at least 30 laws related to food safety, with inconsistent oversight and ineffective coordination. Federal spending across two major agencies involved – USDA and FDA – is mismatched with these agencies' relative responsibilities; FDA with responsibility for 80 percent of the food supply spends only 24 percent of total federal food safety dollars. FDA has reported that limited resources and authorities challenge its efforts to carry out its food safety responsibilities. For example, FDA's oversight and enforcement efforts have not kept pace with the growing number of food firms. As a result, FDA has little assurance that companies comply with food-labeling laws and regulations and has limited oversight over imported fresh foods..

Revamping the oversight of food safety is especially critical in light of the fact that the U.S. imports 60 percent of fresh fruits and vegetables and 75 percent of seafood. In addition, shifting demographics means that more of the U.S. population—including older adults, young children, pregnant women, and immune-compromised individuals—is increasingly susceptible to food-borne illnesses. This fragmented system is the key reason GAO added thefederal oversight of food safety to its high-risk list in 2007.

Selected countries' food safety systems can offer insights into overseeing our food safety challenges. These systems focus on the entire food supply chain,

from "farm to table"; place primary responsibility for safety on producers; separate risk assessment and risk management; conduct risk-based inspections; and take steps to ensure certain food imports meet equivalent safety standards.

• **Higher Education assistance** – Numerous federal programs are available to students to subsidize higher education costs. As shown in the table below, assistance is provided through various government tools

| Type of assistance | Save for future expenses | Pay current expenses | Repay expenses |
|--------------------|--|--|------------------------------------|
| Grant programs | | Pell Grants Supplemental Educational Opportunity Grants | |
| Loan programs | | Subsidized and Unsubsidized Stafford Loans Federal Perkins Loans Federal PLUS Loans | |
| Tax preferences | Coverdell Educational Savings Accounts Section 529 Qualified Tuition Programs | Hope Credit Lifetime Learning Credit Tuition Deduction | Student Loan Interest Deduction |
| Work-Study program | | Federal Work Study | |

Source: GAO

GAO's study concluded that these programs present a bewildering array of subsidies that confuses parents and students alike. The fragmentation of programs has prevented some families from taking advantage of assistance they are qualified for. Moreover, unbeknownst to many, participation in some federal subsidies to save for future expenses reduce eligibility for student grants and loans. While fragmentation appears to reduce program participation and targeting, there is very little know about the effectiveness of the portfolio of higher education assistance provided. For instance, it is unclear whether assistance increases the rate of enrollment or the likelihood of student completion of degree requirements. Several studies have, in fact, concluded that tax credits may have the secondary effect of inspiring universities to raise tuition in response

• Federal disability programs – GAO has identified over 20 federal agencies and almost 200 federal programs serving individuals with disabilities that provided a wide range of assistance, such as employment-related services, medical care, and monetary support. GAO found that these programs have grown up individually without guidance from unified national goals or indicators. The performance metrics are program specific and provide little or no broader information on the aggregate impacts of federal programs on the quality of life of disabled Americans. For example, the Social Security Administration's (SSA) performance measure of the average time to process a disability claim provides information on how SSA is meeting its program goals with respect to

service delivery, but the measure does not provide direct information on the well-being of the individuals applying for benefits. ¹⁴

Institutionalizing Congressional Performance Reviews

The new Task Force has important work to do just by piloting new models for reviewing performance across government. However, it might also take on the even more knotty question of how to provide for an ongoing role for the Committee and the Congress in undertaking or partnering in performance assessments and reviews.

Several possible approaches exist to enhance Congressional involvement in program assessment:

- A more collaborative approach could be adopted where the new President and the Congress could reach agreement about those areas to be assessed in each budget year. Congress could help ensure that areas that are ripe for reexamination, such as those up for reauthorization, would get attention in the executive review process. The resulting assessment process could have greater credibility in the process. Such a process would require the Congress to articulate its oversight and reexamination priorities centrally and OMB to invite Congress to help determine priorities to guide the executive program assessment process.
- Congress could adopt its own performance assessment and review process linked to the budget process. The Budget Committees could be the vehicle to accomplish this by reporting out a "congressional performance resolution" as part of the budget resolution. Such a resolution could be the vehicle to engage the full Congress in debate over those areas most ripe for review and assessment each year. The resolution could be viewed as a requirement that committees undertake the assessments through hearings, GAO studies and other vehicles that they deem appropriate to reexamine the program areas identified in the resolution.

These assessments could be undertaken by committees and used to inform their own legislative and oversight processes. However, the assessments could also feed into the congressional budget process in the following year. In year 2, the committees could report their findings and policy recommendations as part of the Views and Estimates process, an established part of the budget process.

Alternatively, the assessments could become the basis for a new performance based reconciliation process the next year where the committees would be required to take actions on their findings, with the protections of the reconciliation process in place. This

_

¹⁴ U.S. Government Accountability Office, <u>Federal Disability Programs: Coordination Could Facilitate</u> <u>Better Data Collection To Assess the Status of People With Disabilities</u> (GAO-08-872T, June 4, 2008

alternative would obviously be controversial with the committees and many stakeholders as well. Committees might protect their programs, knowing that their assessments might be used against them the next year to force savings. However, if a reconciliation were in the cards anyway for that year, such a process would help provide committees with input into setting the reconciliation targets and process than the current process. ¹⁵

Concluding Observations

We have reached a new and more challenging plateau for performance budgeting, thanks to the progress and persistence of agencies and OMB in generating a supply of useful performance metrics and data. The new challenge is to use this new information more systematically to address the critical budget and performance issues affecting the nation.

With chronic and persistent deficits facing the nation for years to come, performance budgeting can help inform some of the most difficult choices the nation will face. A broad based outcome-oriented performance assessment process has the potential to engage the Congress and the Administration in an important process of reexamining and reforming long standing program structures. As we face the difficult fiscal choices ahead, performance budgeting has the potential of both achieving savings while promoting more effective portfolios of tools to address national outcome goals. As the GAO noted, many of our programs reflect judgments and priorities set years ago and a timely reexamination is essential, regardless of our fiscal bottom line.

Such a process is not easy. I don't need to tell this Committee that there is no low hanging fruit in the federal budget. In fact, performance based assessments will entail the prospect of greater conflict. Taking on reviews of the base of groups of programs is a challenge to be sure. This Committee will most certainly be taking on both the many claimants whose interests are advanced by existing program structures as well as carving out a higher profile in relation to the other committees in the Congress. As you know far better than I, this new role will require artful work to gain the support of other leaders in the Congress, as well as the Administration. It will be important for this process to be highly selective in its reviews, to avoid being overwhelmed by the sheer amount of work as well as the likely political reaction.

Nonetheless, the rewards are substantial. Performance assessments carry the promise of transforming the budget process into a more strategic and forward looking vehicle for setting the nation's priorities. Congressional adoption of performance assessments, coupled with a comparable process in the Administration, will amount to a down payment on the governmentwide performance plan promised under the GPRA in 1993. More importantly, a process that forces claims to compete on performance grounds will go a long way to realizing the goals of a good budget process articulated by a former budget director: to target weak claims, not weak claimants.

¹⁵

¹⁶ U.S. Government Accountability Office, <u>21st Century Challenges: Reexamining the Base of the Federal Government</u> (Washington, D.C.: GAO, 2005) GAO-05-325SP

Mr. Chairman, this concludes my statement. I would be glad to respond to any further inquiries by the Committee.