

Comments at the Opening Plenary of the Association for Budgeting and Financial Management, October 7, 1999, Washington, D.C., on the topic of “Federal Budget Structure and Concepts for a new Millennium: Revolt, Reform, or Renewal?”

Roy T. Meyers
Associate Professor of Political Science
University of Maryland, Baltimore County
meyers@umbc.edu
<http://research.umbc.edu/~meyers/index.html>

While I recognize that “budgeting” and “revolt” are probably mutually exclusive concepts, today I would like to argue in favor of “revolt.”

In particular, I want to dispute the widely-held belief that the newly-arrived surpluses are grounds for praising the system’s discipline.

A typical statement of this idea can be found in a Washington Post editorial from June 23, 1999: “The budget rules are anything but rational, but they’ve helped to produce a good result.” (p. A20)

Now consider the argument made last Sunday by the same editorial page (10/3/99, p. B6) in opposition to a House Republican proposal to spread out the budget year’s expected Earned Income Tax Credit payments through the budget year plus one:

“. . . what is worst about the idea is that, in the end, it serves no real-world governmental purpose. The timing change -- the moving of some of these payments into the next fiscal year -- is a gimmick in the service of a phony budget position whose only purpose is political show. . .”

Just as there is no free lunch in budgeting, we should demand some intellectual consistency about the effects of the current budget process. I think the correct resolution of the Post’s inconsistency is as follows: loony rules should be expected to produce stupid results.

In arguing this point, I don’t want to impugn the abilities of federal budget professionals. I think most of them are very intelligent, hard-working, and well-intentioned public servants. However, I believe that, to steal a popular saying about the old style of public administration, federal budget practitioners are “good people trapped in a bad system.”

Of course, that phrase has often been used to support a proposed spring from the trap. We should think about how we can, if not revolt against the current process, then how we can reform it so as to renew its ability to function in our interests.

I do acknowledge that federal budgeting, and financial management more generally, is not a complete failure. In particular, the system has long excelled at managing cash and debt, and at keeping agencies responsive to directives from their political masters. And in recent decades,

federal budgeting has played its proper role in macroeconomic stabilization, which is to withhold from discretionary stimulus spending. Perhaps we should exorcize Richard Nixon's ghost by chanting, "none of us are Keynesians anymore."

The record of budgeting vis-a-vis efficient and effective management is more mixed. Those responsive directives I mentioned often reduce efficiency and effectiveness. On the other hand, agencies have been making slow progress implementing the Chief Financial Officers Act and the Government Performance and Results Act.

In comparison, I think the biggest problem with the budget process is that it promotes the routine misallocation of resources.

I don't believe it comes close to meeting an ambition expressed by the 1967 President's Commission on Budget Concepts, which listed among the budget's multiple objectives that the budget

"... proposes an allocation of resources to serve national objectives, between the private and the public sectors, and within the public sector"

Sharp listeners will have noted that the commission used the verb "proposes." It didn't use any adjective to describe the quality of the budget's allocation.

But if you consider how today's budget concepts and procedures might affect allocations, you should not rule out quality-describing adjectives like "nonsensical," "arbitrary," "unfair," and "counterproductive."

Our so-called leaders don't debate priorities now, they look for the easy cash. They manipulate spendout rates so they can appear to fit under the discretionary spending cap.

Of course, maintaining the discretionary spending cap over the long-run would eviscerate much of government. But then why was it adopted? Any ceiling for such a grab-bag of expenditures would be inherently arbitrary, and the choice of a harsh ceiling—with no identifiable consequences—was the easy way out, compared to cutting entitlements or raising taxes any more. And, of course, some politicians did want to eviscerate government.

But this is a trap of self-delusion for the politicians—once they pretended that the ceiling was not arbitrary, they then began to fear the charge of fiscal irresponsibility for raising the cap. The further paradox is that the American voters are not as dumb as they appear to be—they know how many months are in a fiscal year. Nor are most American voters as conservative as some of their leaders.

So politicians have been looking for defensible ways to ignore the ceiling. For example, current law assumes extra spending is only justifiable for "emergencies." But politicians have recently

gone beyond leniency in their interpretation of this term. And to control that evasion, some proponents of fiscal discipline want to write into the budget law selected text from the OMB guidelines on what constitutes emergency spending. For example, the law would include, among other provisions, the following criteria:

“sudden, which means quickly coming into being or not building up over time”

“temporary, which means not of a permanent duration”

Perhaps such excess specificity is understandable in a town that last year debated the meaning of the word “is”! This year, the Republican leaders decided to redefine the word “Census” as a sudden and temporary obligation of the government. So much for literal interpretation of the Constitution!

The main effect of such pseudo-constraints is to put a gloss of self-discipline on a process that runs on the fuel of pork-barrel allocations, in both appropriations earmarks and authorizing bills like TEA-21. Please read the reports of these bills, or glance at Senator McCain’s web site, and look at the set-asides. I doubt you will conclude that the process is disciplined and that it sets priorities in the citizens’ interests.

Note I haven’t even mentioned the vaunted–though not vaulted–lockbox, which is another exercise in self-delusion. Rather than seriously discussing Social Security or health insurance, politicians have been playing charades with numbers.

Another problem with the budget rules is that there is no plausible policy-related justification for creating the firewall between discretionary spending and direct spending. But, when taken as a legitimate constraint, consider how the firewall apparently affected the design of policy initiatives in the Clinton Administration. My understanding of the informal rules is as follows:

first, you run an opinion poll to test whether an abstract goal, like “improved education,” gets high positives;

then, you pledge to spend on such goals a round number of dollars, or to provide a round number of outputs--round because it’s easier for the public to remember, such as in 100,000 police officers or teachers;

most importantly, you try to spend through any mechanism other than federal agency provision subject to the discretionary cap, even if it is a relatively inefficient mechanism; and finally

the small print is usually that:

the dollars are to be spent, or outputs are to be delivered over a number of years,

and

intervening variables that may diminish effectiveness are never noted,

meaning that the claimed outcomes are often likely to symbolic.

I know this characterization is a bit unfair to the administration.

In a chapter for my budgeting handbook, Barry White, a highly-respected DAD at OMB, recommends that budget examiners—or resource management analysts—should do high-quality policy and management analysis, and then fit the results within the political constraints of the budgetary process; he concludes that analysts need not compromise too much.

But though I love his chapter, I still have my doubts about Barry's conclusion, because the political constraints seem so important.

Yes, a lot of good policy analysis is done in Washington, and it is used in budgeting, both short-term, in the case of cost estimates, and long-term, by changing social beliefs about the nature of problems and about what works in addressing those problems.

But not enough analysis of the right type is done, and not enough analysis is used by elected officials.

For example, assume we had—which we now don't—accurate and comparable cost and performance information for the government's various interventions in the housing market. That is, not only for HUD's numerous programs, but also for the tax expenditures run through Treasury and the implicit subsidies to Fannie Mae and other government-sponsored enterprises. The Congress wouldn't know what to do with this information because of fragmented jurisdictions. OMB might, if it was running a special cross-cut analysis, but like the Congress, would then run up against the rules that supposedly encourage fiscal discipline.

Instead, the Congress would continue to blame HUD for mismanagement, and for failing to develop a realistic strategic plan.

The wisdom of GPRA is its recognition that one can't budget intelligently without a logic model for a policy design, and a management model for an implementing organization. Of course, developing such models is often difficult, not only because of uncertainty over what works, but also because of differences over the conflicting goals handed to agencies.

I'm a devoted reader of GAO's reports on GPRA implementation, and if there is a central hidden message in its recent reports, it is that the process is unlikely to deal successfully with mission fragmentation and program overlap. The message is hidden because GAO has been punished in recent years for pointing the finger at its boss--the Congress. So I'll do the job instead:

Dear Congress,

If you would like agencies to succeed with performance budgeting, you and the President must use authorizing legislation to develop clearer, and more consistent, aspirations for performance. That can be done only if you spend less time micromanaging agencies through appropriations.

Sincerely,

An incredibly optimistic, but not naive, academic

That is, GPRA can be a success when it overtly challenges inefficient administration, but also when it subversively questions the rationales for allocations that would otherwise be left unexamined.

I used the word “assume” before because budget information is not routinely presented in a functional, cross-policy tool and cross-agency format. But isn’t this what we should want? If budgeting is to consider opportunity costs, then decision-makers should be confronted with accurate cost and performance information in groupings that create sensible competitions.

Therefore, I believe that budgeting, and policy-making more generally, would improve if government revived the budget functions from their comatose state. I advocate the ambitious approach in which the Congress would change its committee jurisdictions to match those functions. With this structure, the executive branch and the committees could periodically review social indicators within each function. They could debate how indicators revealed gaps between reality and aspirations. And politicians could then consider how budgets should allocate resources in response to these gaps.

With a process that is reformed in this way, the result could be a less sterile debate than the current one which claims to be devoted to “saving social security first,” but which is unlikely to have much effect on either Social Security financing, national saving rates, or income disparities. Instead, we might be thinking harder, for example, about the educational problems of this country. It might be harder to set unrealistic aspirations like those in GOALS 2000 and follow them with mostly cosmetic reforms. And it might be harder to ignore the interrelationships between Medicaid, Medicare, and the regulation of private health insurance. That is, we also need to broaden occasionally the scope of attention beyond the fiscal to the economy-wide. A convincing argument for this approach was made in 1989 by the late Herb Stein—for my money, long the wisest man in Washington—in a marvelous but underappreciated book called “Governing the \$5 Trillion Economy.”

Yes, I understand the political barriers to these reforms. But as radical as it sounds, similar approaches are already being used elsewhere, in Australia and Oregon, for example.

In conclusion, what I’ve been arguing implicitly, and now want to make explicit, is that we can

improve budgeting by trying to incorporate some of the core principles of policy analysis. I am not calling for the government-wide revival of PPBS. Nor, as the editor of a budgeting handbook which I hope you will all buy, do I want to minimize the relevance of budgeting!

But I do believe that current budget concepts and procedures are as much disease as cure. We can't allocate well, and for that matter, keep aggregate fiscal discipline over the long-run, if we only ask:

how much money in what form will be paid by government?

We must also ask the basic questions of policy analysis:

to what extent is there a problem?

which alternative policies—fiscal and otherwise—might reduce the problem?

how effective might each particular policy be?

Those are questions that should be at the heart of budgeting, but they are not at present. The concepts and procedures of budgeting are misaligned with the goals we should have for the process. We need a broader discussion than whether the caps should be raised or lowered. That discussion should acknowledge that aggregate fiscal discipline starts at home, with intelligent allocations at the microbudgetary level.

Now how do we get there? Through politics.

I am not arguing that there's too much politics in budgeting. I know that budgeting can't be separated from politics; I celebrate the necessity of politics in budgeting. What I don't like is bad politics. And America is full of bad politics right now—which is well-described in Gene Steuerle's coauthored book [The Government We Deserve](#).

The political reform agenda that I believe we need is much wider than budgeting. But since we are experts in budgeting, I believe we should argue forcefully for a more sensible budgetary processes, particularly at the micro level. We need to tell ordinary Americans, in words that they can understand, how the federal government can budget more intelligently. When politically-active citizens fail to accept glib arguments about spending caps, and when they demand more-than-symbolic budgetary attacks on the most critical problems, politicians will have no option other than renewing the budget process.

Thank you for your attention, and I would appreciate hearing any reactions you might have.