

Performance Budgeting

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Presidential Expectations

“We need to restore the American people’s confidence in their government – that it is on their side, spending their money wisely, to meet their families’ needs. That starts with the painstaking work of examining every program, every entitlement, every dollar of government spending and asking ourselves: Is this program really essential? Are taxpayers getting their money’s worth? Can we accomplish our goals more efficiently or effectively some other way?”

– President Barack Obama

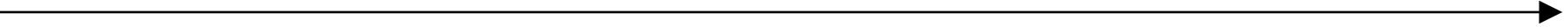
“There comes a time when every program must be judged either a success or a failure. Where we find success, we should repeat it, share it, and make it the standard. And where we find failure, we must call it by its name. Government action that fails in its purpose must be reformed or ended”

– President George W. Bush

Historical Perspective

- 60 years of efforts to link resources with results
 - The First Hoover Commission (1947) and the Budget and Accountings Procedures Act (BAPA) of 1950
 - Planning-Programming-Budgeting (PPBS) System, 1965-71
 - Management by Objectives (MBO), 1973-74.
 - Zero-Base Budgeting (ZBB), 1977-81
 - Government Performance and Results Act (GPRA)/ Program Assessment Rating Tool (PART)

Historical Perspective



1900.....1930s

Budget and Accounting
Act of 1921

Focus:

Dollars
People
Accounts

Emphasis:

Resources

1940.....1950s

Budget and Accounting
Procedures Act of 1950

Transactions
Activities
Functions

Work

1960.....

GPRA 1993

Programs
Outputs
Outcomes
Impact

Purpose

Performance Budgeting Continuum

- Presentations
- Budget Restructuring
- Performance based targets
- Performance linked funding
- Performance reviews and assessments

Key Elements of Performance Budgeting

- Defining expectations clearly
- Addressing structural alignment between plans, budgets and total costs
- Increasing the supply of credible outcomes, measures, and information
- Promoting demand for information used by actors with different needs

Expectations: What is the Relationship Between Performance and Budget Allocations?

- Mechanical model – performance changes directly reflected in budget
- Incentives model – performance affects a portion of funding or other incentives
- Agenda model – performance one factor in budget decisions

GPRA: Building the Performance Supply Chain

- Agency planning and reporting as foundation
- Focused on outcomes
- Linkage to budget accounts
- Phased in approach

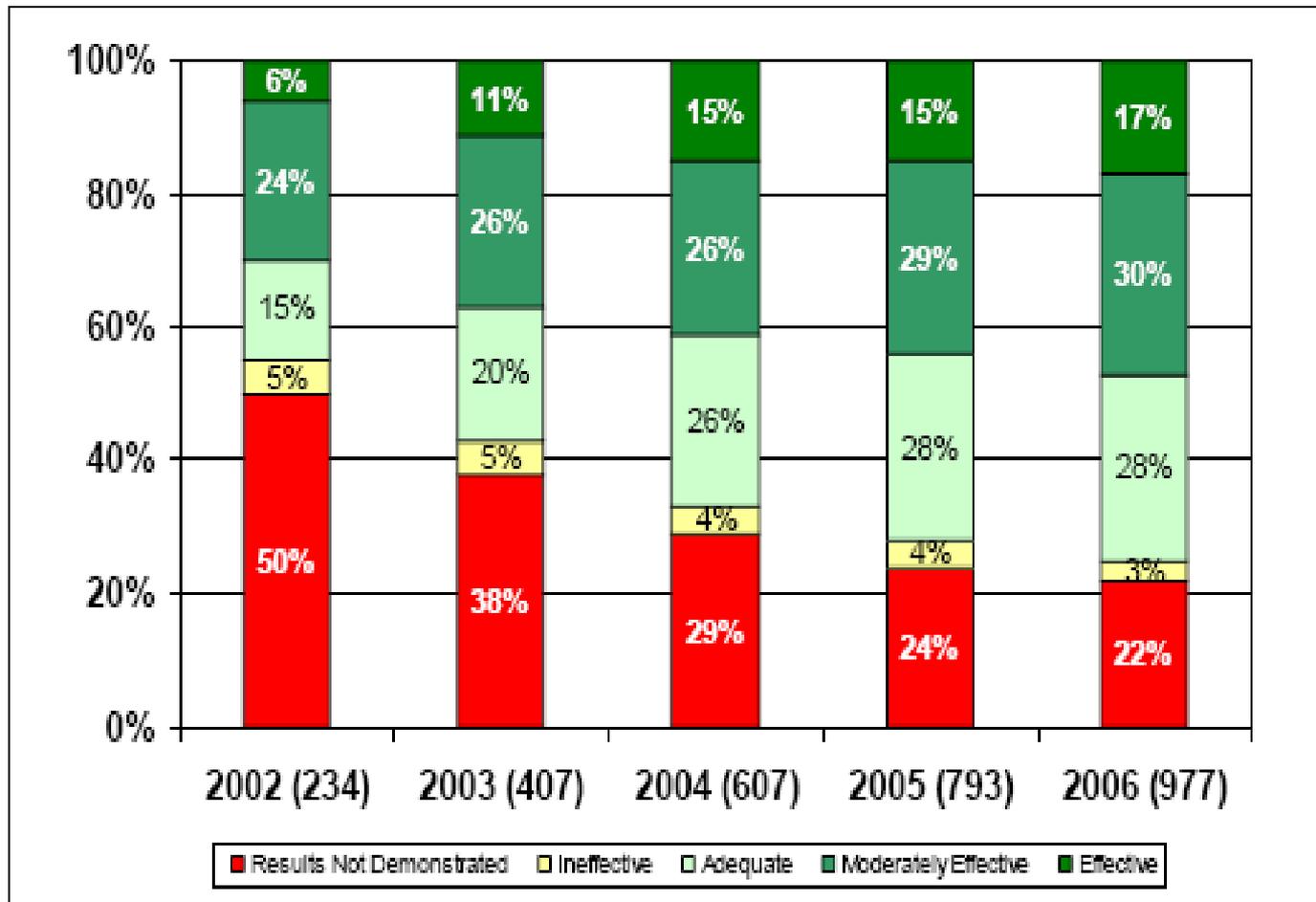
The Payoff: Improved Performance

- Coast Guard reduces marine accidents from 91 to 27 per 100,000 workers
- FDA increases number of generic drugs reviewed on time from 35% to 87%
- Veterans health networks use data to reduce cardiac morbidity
- NTSA data leads states to adopt “Click it or Ticket” seat belt initiative

Assessing the PART: Building the Demand Side

- Proactive use of performance information
- Raising salience of program evaluation
- Unit of analysis different than GPRA
- Presidential tool does not serve important actors including Congress

PART Score Trends



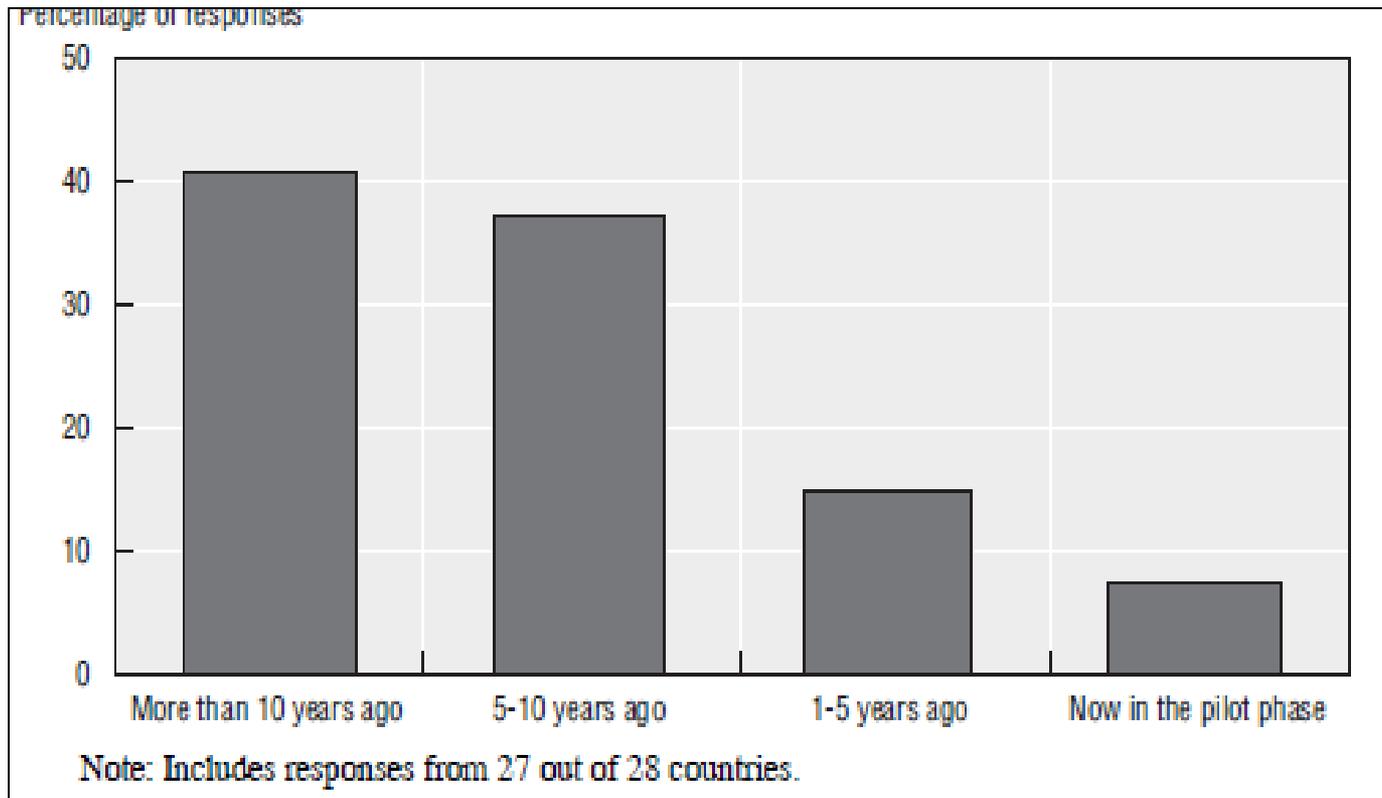
Obama Administration Performance Agenda

- High Priority Goals
 - Agency heads required to identify select initiatives with well defined outcomes
 - Examples include
 - Assist 3 million homeowners at risk of foreclosure
 - Reduce homeless veterans to 59,000
 - Double renewable energy capacity by 2012
 - Quarterly monitoring by OMB

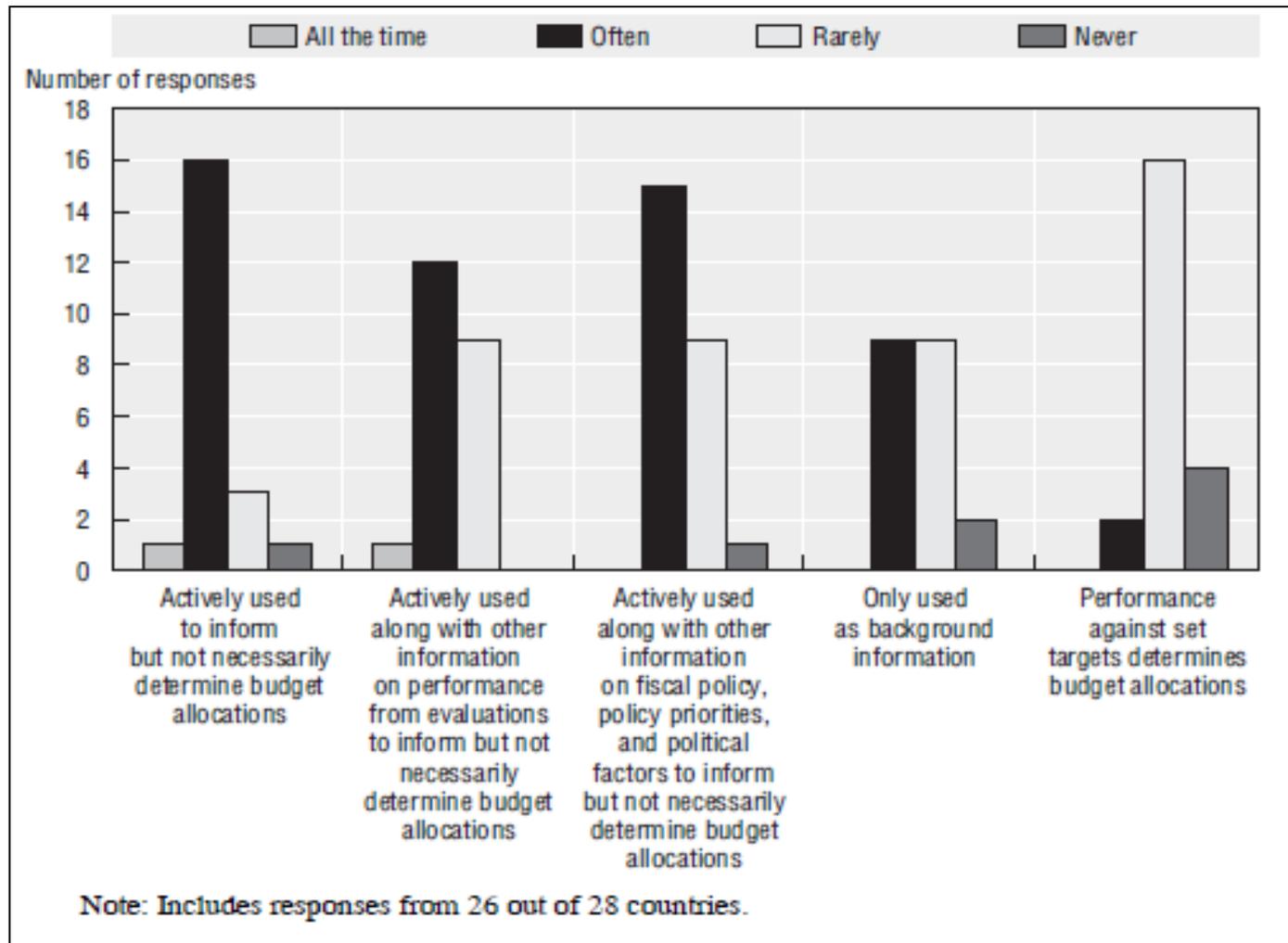
Obama Administration Performance Agenda

- Dashboards and other transparency initiatives
- Cross agency teams under Performance Improvement Council
- Program Evaluation initiative
 - \$100 million for 17 initiatives

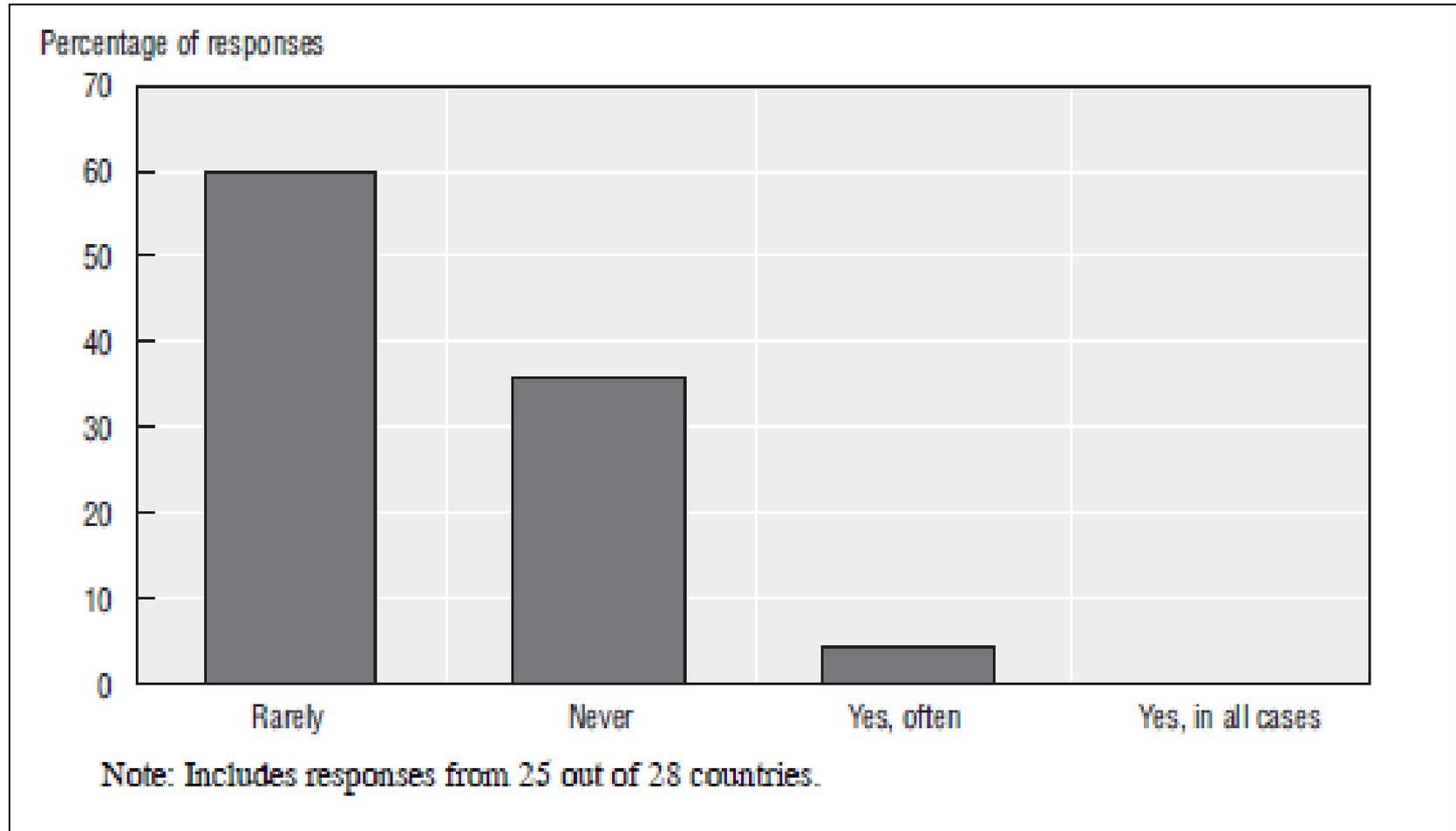
OECD: Duration of performance reforms



OECD: Use of Performance Data in Budget Decisions



OECD: Nations using performance data to eliminate programs



UK Public Service Agreements (2004)

- By 2010 increase life expectancy at birth in England to 78.6 years for men and to 82.5 years for women.
- Substantially reduce mortality rates by 2010:
 - from heart disease and stroke and related diseases by at least 40% in people under 75
 - from cancer by at least 20% in people under
 - from suicide and undetermined injury by at least 20%

UK Public Service Agreements (2004)

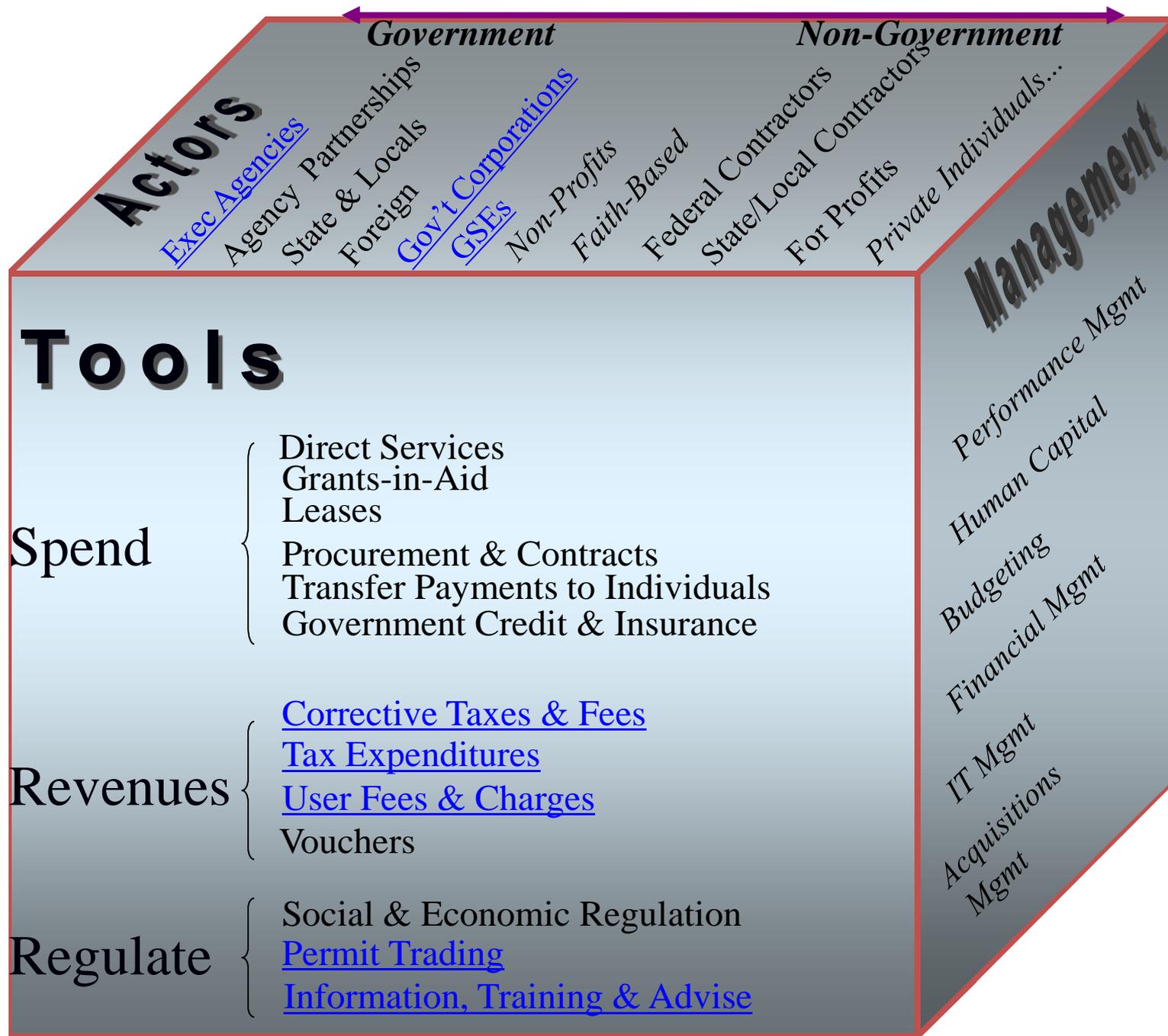
- Reduce health inequalities by 10% by 2010 as measured by infant mortality and life expectancy at birth
- Reduce adult smoking rates to 21% or less by 2010, with a reduction in prevalence among routine and manual groups to 26% or less;
- Halt the year-on-year rise in obesity among children under 11 by 2010
- Reduce the under-18 conception rate by 50% by 2010

Program review in other nations

- Canada achieves over \$18 billion in savings over three years through program review
- Netherlands interdepartmental reviews conducted since 1981 with reviews of about 10 areas each year

Challenges

- Support and agreement on goals
- Linking government actions to outcomes
- Building support among nonfederal actors
- Developing data on all important results
- Aligning budget with performance goals
- Congressional support and use



Structural Alignment: Different Orientations

BUDGET

Agency



Budget Account



Program Activity

PERFORMANCE

PLANNING

General Goal



Strategic Objective



Performance Goal

STATEMENT OF NET

COSTS

Agency



Responsibility Segment



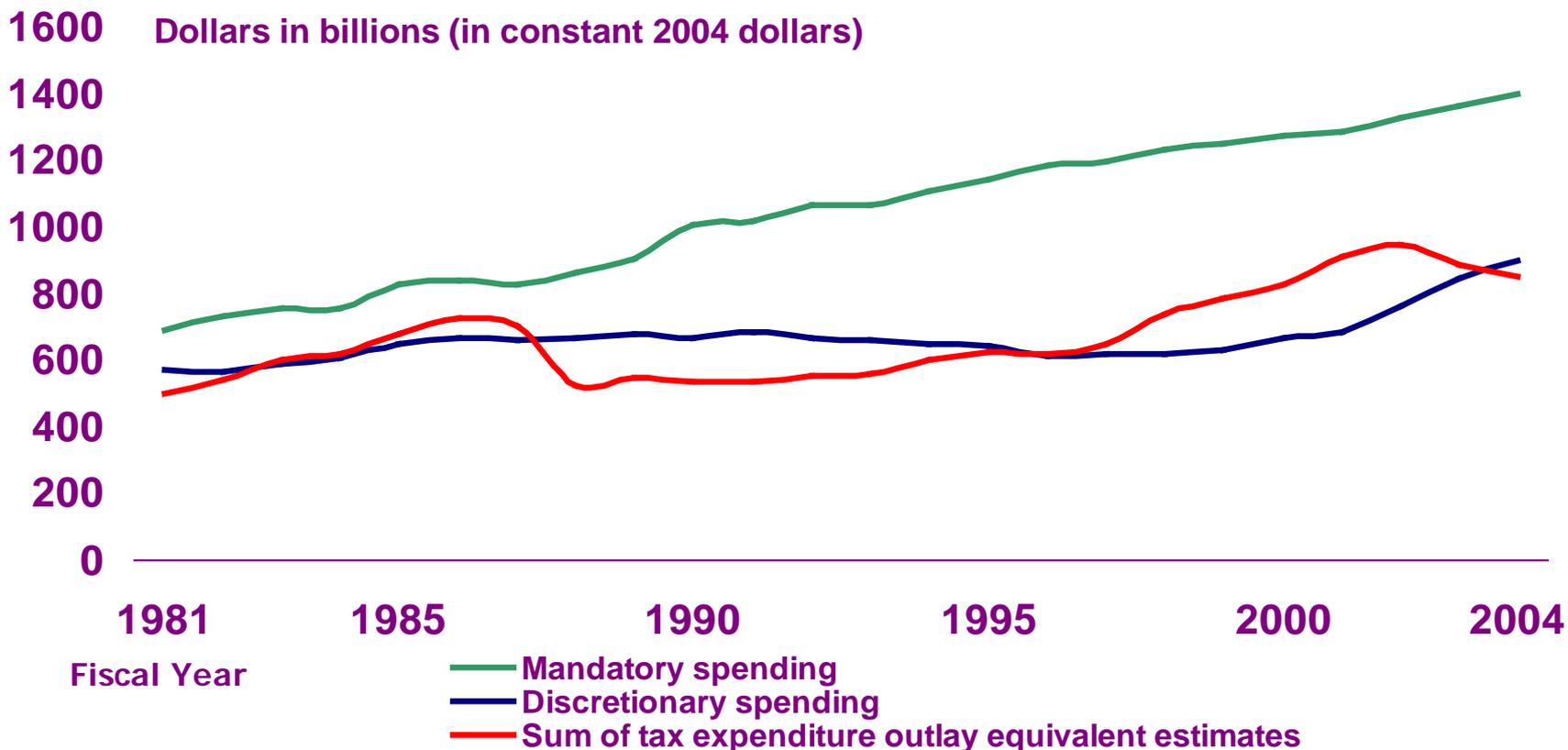
Segment Output

Overcoming barriers to strategic performance based budgeting

- Tradeoffs across agencies and tools addressing common goals
- Periodic examination of the base, not just increments
- Performance informed resource decisions

Mandatory spending, discretionary spending and tax expenditures

Measured on an Outlay Equivalent Basis, Tax Expenditures Exceeded Discretionary Spending for Most Years in the Last Decade



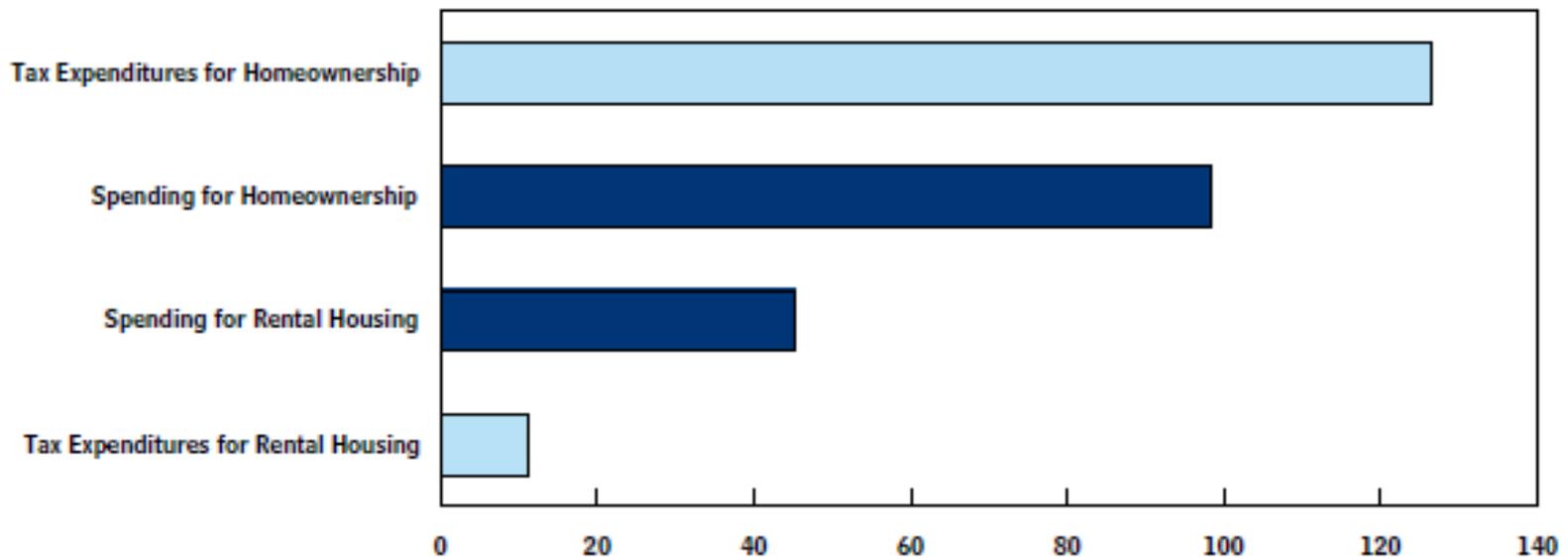
Note: Outlay-equivalent estimates represent the amount of budget outlays that would be required if the government were to provide taxpayers with the same after-tax income they receive through the tax expenditure. Outlay-equivalent estimates are useful to compare tax expenditures and other parts of the federal budget. Summing tax expenditure estimates does not take into account interactions between individual provisions.

Source: GAO Analysis of OMB's Budget Reports on Tax Expenditures, Fiscal Years 1976-2006.

Housing Portfolio

Federal Support for Housing, 2009

(Billions of dollars)

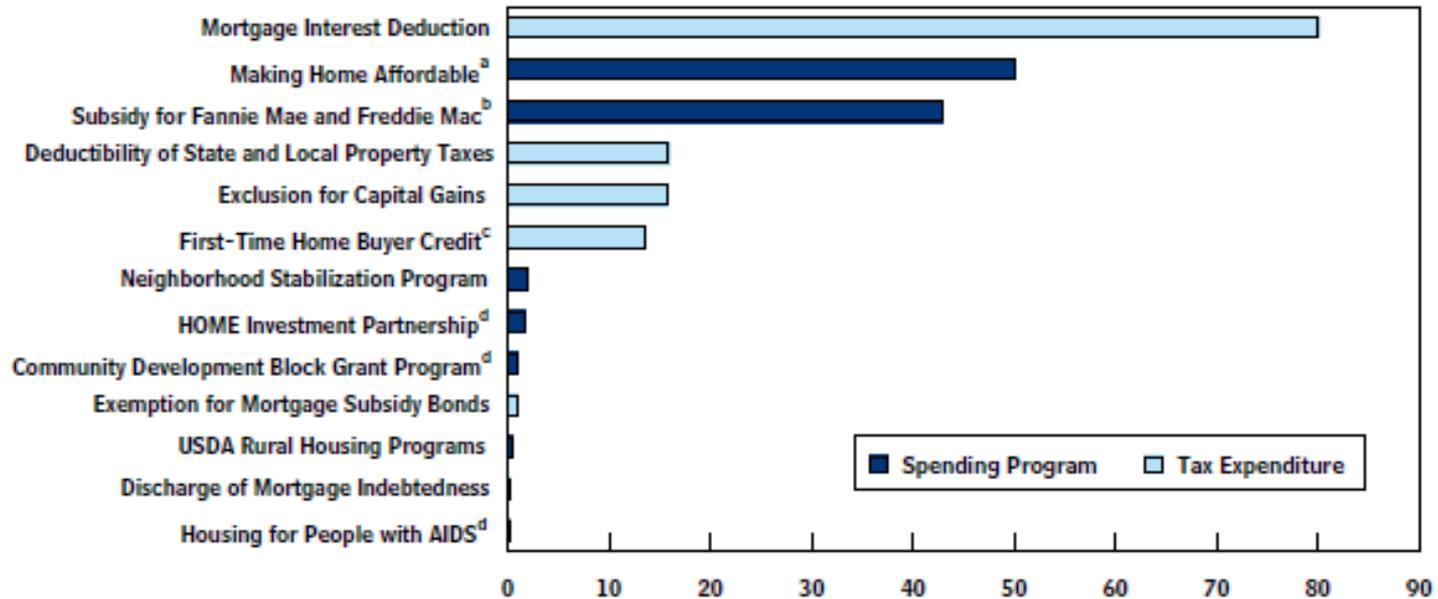


Sources: Congressional Budget Office (for spending amounts); Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2008-2012* (2008) (for tax expenditure amounts).

Housing Portfolio

Federal Support for Homeownership, 2009

(Billions of dollars)

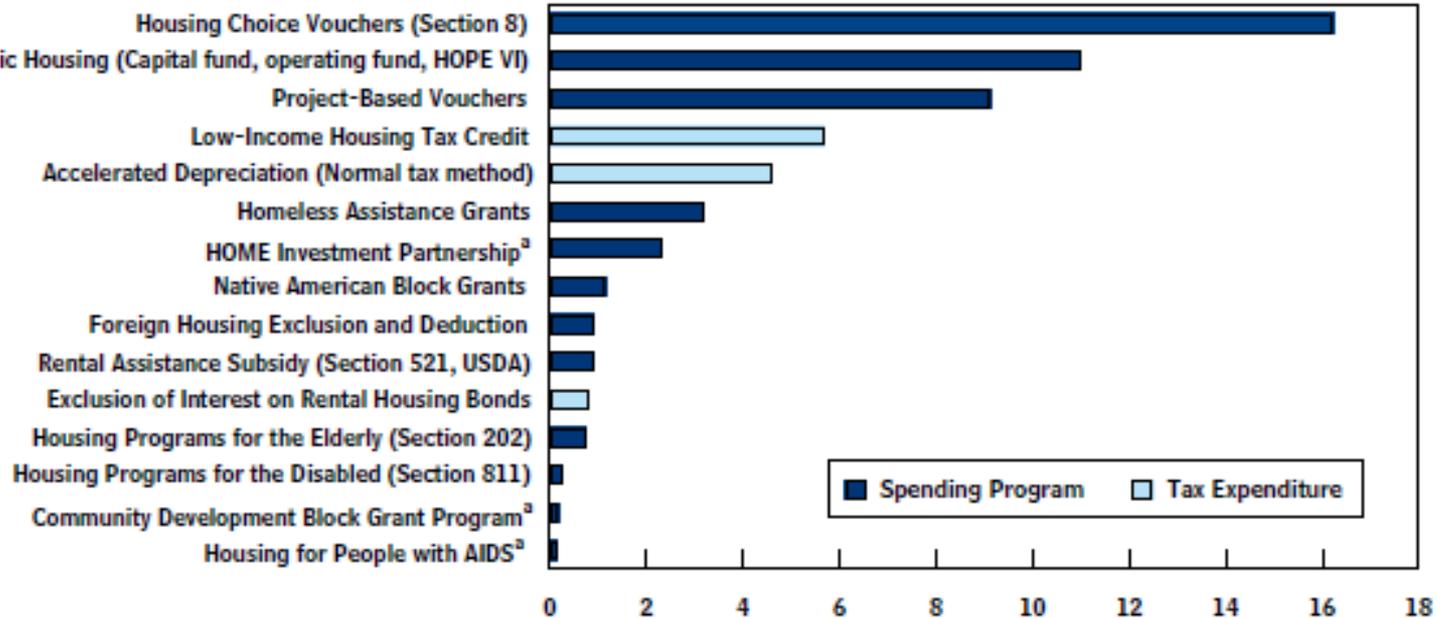


Sources: Congressional Budget Office (for spending amounts); Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2008-2012* (2008) (for tax expenditure amounts).

Housing Portfolio

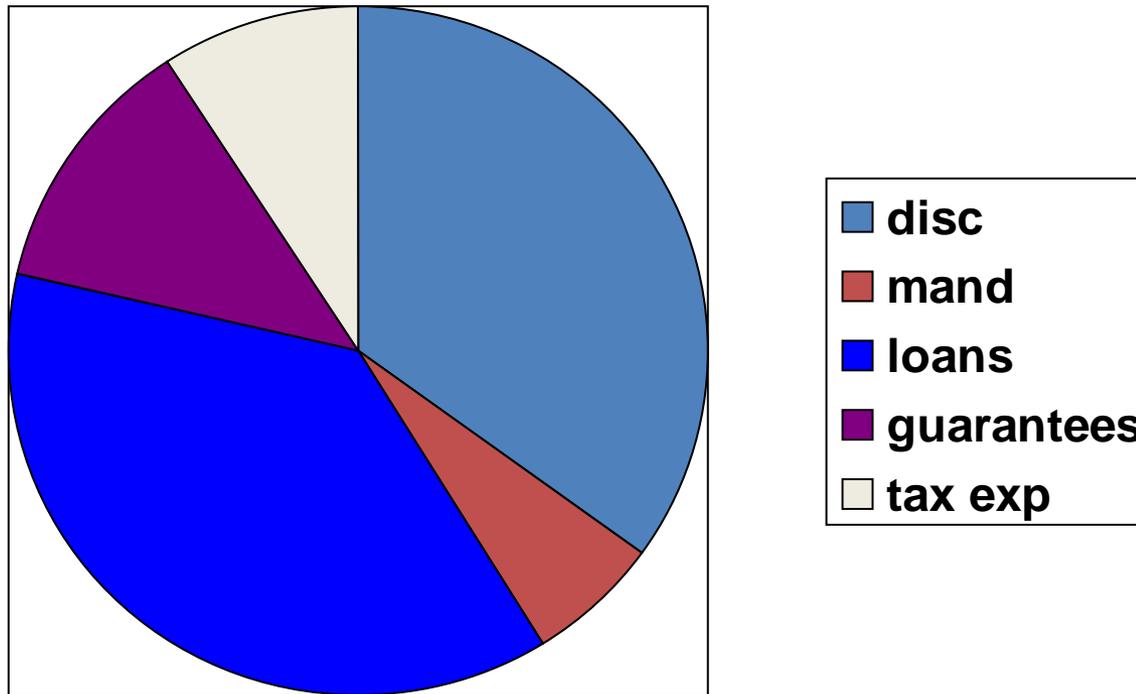
Federal Support for Rental Housing, 2009

(Billions of dollars)



Sources: Congressional Budget Office (for spending amounts); Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2008-2012* (2008) (for tax expenditure amounts).

Education, Training, Employment and Social Services, FY 2010



Federal Higher Education Subsidies

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.

Performance and Congressional Budgeting: An Agenda

- Developing a leadership agenda
- Review and assessment of selective portfolios of programs
- Inclusion of all tools and programs addressing common missions
- Integration with congressional budget process

Budget Subfunctions

- 19 Functions across the federal budget
 - Natural Resources and Environment
- 80 Subfunctions
 - Natural Resources and Environment
 - Water resources
 - Conservation and land management
 - Recreational resources
 - Pollution control and abatement
 - Other natural resources

Framework for Assessments

- Reassess objectives for relevance and fit
 - Change in environment and need
 - Persistent failures
 - Excessive costs
- Redefine beneficiaries
 - Grant formulas
 - Eligibility rules
 - Fees

Framework for Assessments

- Improve efficiency
 - Reorganization and consolidation
 - Reengineering
 - Streamlining
 - More cost effective tools of government
 - Pricing

Deficits in Other Nations

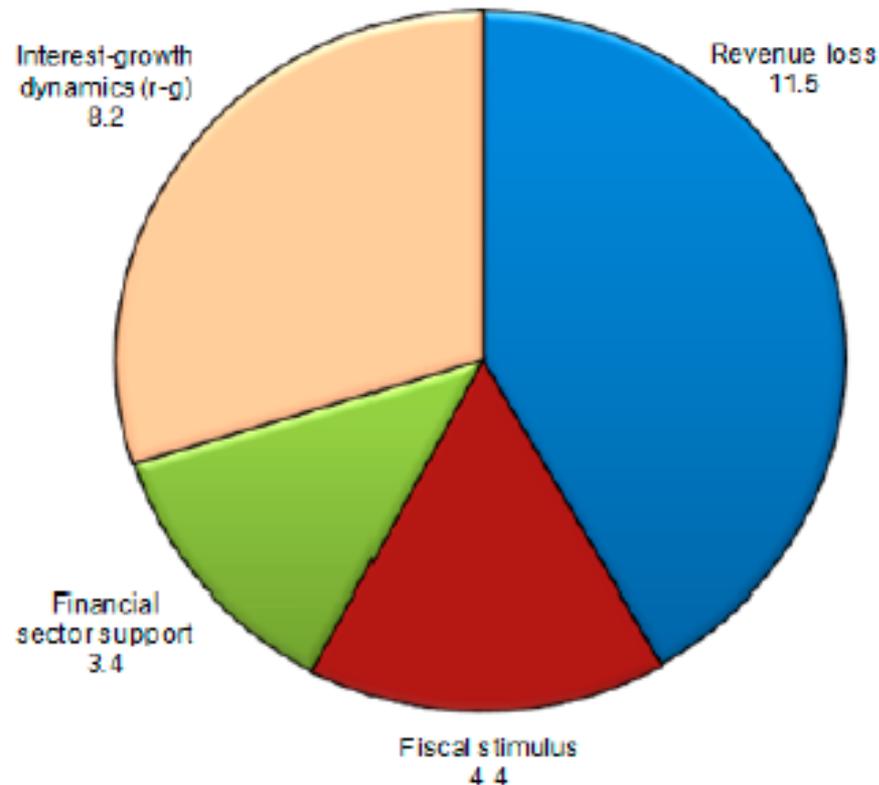
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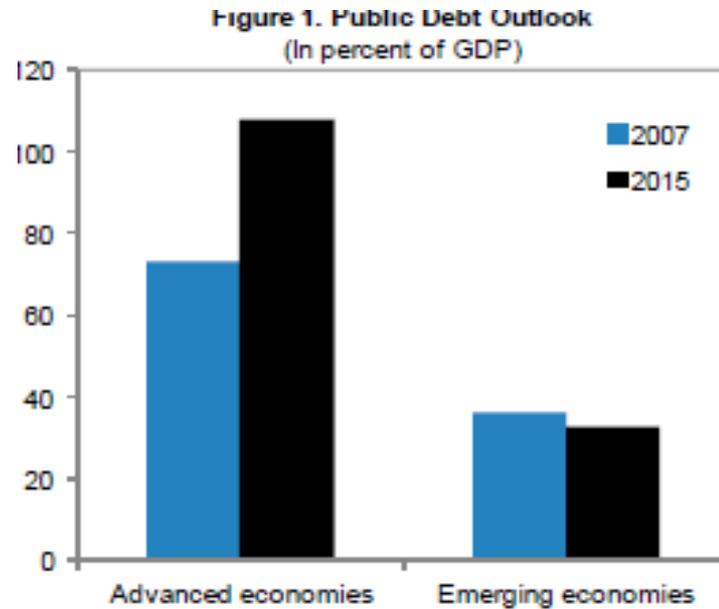
Fiscal Deterioration G-7 Nations

Figure 3. Projected Increase in Public Debt Ratios in G-7 Economies, 2008–10
(In percent of GDP; 2009 PPP-GDP weighted average)



Sources: IMF *Fiscal Monitor* May 2010, IMF *World Economic Outlook* July 2010 Update, and IMF staff calculations and estimates.

Projected Debt Outlook



Source: IMF *World Economic Outlook* July 2010 Update.
Note: PPP-GDP weighted averages.

OECD Fiscal Positions

Table 1. **Fiscal positions will begin to improve in 2011**

Per cent of GDP / Potential GDP

	2007	2008	2009	2010	2011
United States					
Actual balance	-2.8	-6.5	-11.0	-10.6	-8.9
Underlying balance ²	-3.3	-5.9	-8.4	-8.7	-7.7
Underlying primary balance ²	-1.4	-4.2	-7.0	-7.0	-5.5
Gross financial liabilities	61.9	70.4	83.0	89.6	94.9
Japan					
Actual balance	-2.4	-2.1	-7.2	-7.6	-8.5
Underlying balance ²	-3.5	-3.3	-5.6	-6.3	-7.0
Underlying primary balance ²	-2.8	-2.4	-4.7	-5.0	-5.3
Gross financial liabilities	167.0	173.8	192.9	199.4	204.9
Euro area					
Actual balance	-0.6	-2.0	-6.3	-6.8	-6.0
Underlying balance ²	-1.3	-1.8	-3.5	-4.2	-3.9
Underlying primary balance ²	1.4	0.8	-1.1	-1.7	-1.1
Gross financial liabilities	71.0	73.3	82.1	88.6	93.5
OECD¹					
Actual balance	-1.2	-3.3	-7.9	-7.8	-6.9
Underlying balance ²	-2.2	-3.7	-6.1	-6.3	-5.8
Underlying primary balance ²	-0.4	-2.0	-4.5	-4.5	-3.7
Gross financial liabilities	73.0	79.0	90.1	95.8	100.1

Note: Actual balances and liabilities are in per cent of nominal GDP. Underlying balances are in per cent of potential GDP. The underlying primary balance is the underlying balance excluding the impact of the net debt interest payments.

1. Total OECD excludes Mexico and Turkey.

2. Fiscal balances adjusted for the cycle and for one-offs.

Source: OECD Economic Outlook 87 database.

OECD Long Term Fiscal Outlooks

Table 2. Consolidation requirement to stabilize the debt-to-GDP ratio over the long-term horizon

	As per cent of potential GDP				
	Underlying primary balance in 2010	Underlying primary balance required to stabilize debt	Required change in underlying primary balance	Change in underlying primary balance in 2011	Requirement beyond 2011
	(A)	(B)	(C) = (B) - (A)	(D)	(C) - (D)
Australia	-1.8	0.1	1.9	1.0	0.9
Austria	-0.9	0.9	1.8	0.4	1.4
Belgium	-2.0	0.7	-1.3	0.7	-2.0
Canada	-2.4	0.0	2.4	0.2	2.2
Czech Republic	-3.2	-0.3	2.9	0.9	2.0
Denmark	-0.5	0.1	0.6	0.3	0.3
Finland	-0.4	-0.3	0.1	-0.7	0.8
France	-3.3	1.7	5.0	0.7	4.4
Germany	-1.1	1.5	2.7	0.6	2.1
Greece	0.0	2.7	2.7	3.8	-1.1
Hungary	2.4	2.5	0.1	0.0	0.1
Iceland	-2.1	1.7	3.9	3.3	0.6
Ireland	-6.3	2.0	8.3	0.3	8.0
Italy	1.7	3.5	1.8	0.0	1.7
Japan	-5.0	3.9	8.9	-0.3	9.2
Korea	1.0	-4.5	-5.5	-0.3	-5.2
Luxembourg	-2.7	0.0	2.8	-1.2	3.9
Netherlands	-2.2	0.9	3.1	0.8	2.3
New Zealand	-3.6	0.1	3.7	0.1	3.6
Norway	-3.9	0.5	4.4	0.4	4.0
Poland	-4.8	2.1	6.9	0.3	6.6
Portugal	-4.1	2.2	6.3	1.6	4.6
Slovak Republic	-3.5	1.6	5.1	1.2	3.9
Spain	-5.6	0.8	6.3	1.2	5.1
Sweden	1.8	-0.2	-2.0	1.0	-3.0
Switzerland	0.3	0.0	-0.3	0.1	-0.5
United Kingdom	-5.7	3.1	8.8	0.9	7.9
United States	-7.0	2.4	9.4	1.4	8.0

1. Underlying primary balance required in 2025, based on gradual but steady consolidation paths, to stabilise debt-to-GDP ratios over the long-term horizon, embodied in the long-term baseline scenario presented in *OECD Economic Outlook 87*. Debt stabilisation may take place at undesirably high levels.

Source: OECD calculations.

Fiscal Turnarounds

Country/ Dates	Fiscal Adjustment	Main elements	Tipping Point
Canada 1994-1998	Annual budget shift: chronic deficits to surpluses. Fall in debt/GDP from around 70% to 29% over 10+ years.	Tough spending cuts. More pension contributions. Credible anti-inflation, exchange rate policies. Contingency Reserve cushion. Public education.	Unsustainable debt. Market focus post-Mexican peso crisis. External financing stress, interest rates up, Moody's downgrade.
Denmark 1982-1986	Annual budget deficit/GDP improved over 15 percentage points. Debt/GDP stabilized after rise from 47% to 82%.	Higher revenues. Sharp spending cuts. Welfare, pension changes. Credible anti-inflation, exchange rate policies. Virtuous circle.	Exploding sovereign debt, very high interest rates, faced with possible credit downgrade to foreign debt.
Finland 1992-2000	Budget shift: deficit (8% GDP) to large surplus, annual. Debt/GDP reduced from over 70% to less than 45%.	Banking system stabilized. Mainly spending cuts. Tax increases (fees, payroll); tax reforms. Entitlement reform. Medium-term framework.	Sharp deterioration in fiscal position, banking crisis, external financing fears, desire to qualify for eurozone membership.
Ireland 1987-1989	Full employment primary budget deficit (8.4% GDP) improved by 7-8% GDP. Debt/GDP: 120% to 90%.	Tough spending cuts (transfer programs). Tax reform. Currency devaluation, anti-inflation policy. Virtuous circle.	Deep recession, deteriorating fiscal situation. Prime Minister thrown out, returned later to launch tough austerity program.
Sweden 1992-2000	Shifted from annual budget deficit over 11% GDP to surplus 5% GDP. Debt/GDP lowered from over 70% of GDP to 53%.	Stabilized banking system. Tough spending cuts. Revenues up (personal income taxes, social security fees, employee payroll taxes). Pension reform 1999.	Sharp fiscal deterioration from recession, banking crisis and initial fiscal expansion via tax cuts. Possible full blown banking and balance of payments crisis.

Sources: [see http://cxfb.org/sites/default/files/Country_Sources.pdf].

Lessons Learned on Fiscal Consolidation

- Overarching fiscal targets and goals
- Announcement effect
- Positive feedback increases GDP growth
- Inclusion of longer term structural spending and tax reforms
- Comprehensive package including spending and tax sides

Lessons Learned

- Phase in over a multi year period through wedge shaped changes
- Large cuts in investments not sustainable
- Target fiscal actions on areas with high growth and long term payoff
- Fiscal rules can reinforce momentum
- Frequent positive political benefits for government leaders