Professional Practice

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Does More (or Even Better) Information Lead to Better Budgeting? A New Perspective—Philip G. Joyce, Professor of Public Policy and Public Administration, The George Washington University

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Does More (or Even Better) Information Lead to Better Budgeting? A New Perspective

Philip G. Joyce

It is almost an article of faith that more accurate and transparent budget information leads to a better budget process, and (presumably) better budget outcomes. The International Monetary Fund, for example, in its *Code of Fiscal Transparency,* holds countries to standards such as public availability of information and openness of budget preparation, execution, and reporting.[1] These standards are hard to dispute. The failure to maintain openness and allow access to information can lead to all sorts of undesirable outcomes, from the simple lack of congruence between resource allocation and public preferences to extreme cases such as corruption.

[1] See International Monetary Fund (2007).

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Herbert Stein, in his near-classic book *Governing the $5 Trillion Economy,* argues that there are two factors that can lead to better budget decisions—"better people and better information." His preference, which is the basis for his book, is to concentrate on information, since "if it is possible to select better officials or to improve the quality of voters, I do not know how to do that, except insofar as improving information may help."[2] Stein argues that the important budgeting questions focus on the relationship between the choice of expenditures and particular outcomes, such as healthier or wealthier people. Informing these choices is one of the most important "budget reforms" that the country can undertake, he says, noting that "the budget-reform movement in the United States . . . has always been primarily about information."[3]

Since budget decisions are concerned with the future, an effective process requires accurate information on the financial effects of future policies and the policy effects of future budgets. In the United States during the past 30 years (since the implementation of the Congressional Budget and Impoundment Control Act, and with further developments in accounting and performance measurement for the federal government), there have been substantial strides made in the quality and amount of information available to decision makers. This has not, unfortunately, carried with it an improvement in the quality of budget decisions. Over this period, federal budgeting has frequently been chaotic, demonstrating a chronic inability to deliver either budgets that are timely or ones that adhere to standards of fiscal discipline.

The purpose of this paper, then, is to review the developments in federal budgetary information over the past 30 years, and to discuss the impact, if any, this increase in budgeting information has had on federal budgeting outcomes. The paper concludes that, while there is unquestionably much more information (and much higher quality information) available, that this information has had an uneven impact. In particular, it is very difficult to discern positive effects at the macro level—that is, related to the operation of the budget process overall or to aggregate fiscal discipline or allocative efficiency.[4]

THE LEGAL, POLITICAL, AND ADMINISTRATIVE IMPETUS FOR MORE BUDGET INFORMATION

By now, the key events leading to the explosion of information about the federal budget, and informing the budget process, are well known. These key milestones can be sorted into two main categories: first, legislation establishing or clarifying the rules for presidential submission and congressional consideration of the budget each year; second, actions (both legislative and administrative) designed to make past or future decisions either more transparent, more accountable, or based on more comprehensive or objective data.

Budget Law

The basic law governing the content of the president's budget, of course, is the Budget and Accounting Act of 1921. This law not only created the requirement for the president's budget, but set in motion ever-increasing demands for information to support the preparation and packaging of the president's budget. Further, by the creation of the General Accounting Office, this law codified the need to check spending before the fact.

[2] See Stein (1989, p. 13).
[3] Ibid.
[4] See Pradhan and Campos (1996).

The theme of checking executive power, of course, is most closely associated with the 1974 Budget Act. This law, by creating a congressional budget, new committees, and a new congressional budget agency (the CBO) did more than anything else to contribute to the "budgetary arms race" of competing data and assumptions that has characterized the process since that point.[5] The goal of this was twofold. First, the framers of this law sought to check the budgetary power of OMB by providing the Congress with its own source of budget information. Second, the intent was to make congressional budget decisions more informed by considerations of how much changes in policy would cost relative to the baseline, or status quo.

Beyond the laws creating the basic rules and institutions came the laws that attempted to use the process to help tackle the federal deficit problem. Starting first with the Gramm-Rudman-Hollings laws (1985 and 1987) and then extending to the Budget Enforcement Act (1990–2002), these laws created further demands for budgetary information, particularly because of the emphasis placed on "scorekeeping" to meet the various spending and deficit targets created by the legislation.[6]

Actions Designed to Create More and Better Data

In addition to changes in budget law, another set of reforms focused on the ability to create either more or better data. The purpose of these reforms was to send more specific or accurate signals in order to contribute to better-informed decisions on budget policies. These can generally be divided into four categories:

- Financial management reforms
- Performance reforms
- Actions designed to change signals sent for policymaking
- Information on the economic or distributional effects of policies

Financial Management Reforms.

Improving federal financial management has been an ongoing theme of budget reformers, but came to a head in the late 1980s with renewed revelations of accounting irregularities (or incompetence, or scandal) in federal agencies. The Department of Housing and Urban Development was a particular target of these probes.[7] At about this time, the General Accounting Office began to publicize its set of "high risk" federal activities.[8] Attempts to remedy these ills led to a proliferation of laws, including the Chief Financial Officers Act of 1990, the Federal Financial Management Integrity Act of 1982, and the Federal Management Reform Act of 1994. These laws variously required the creation of chief financial officers in federal agencies and reforms in accounting and financial reporting that ultimately put substantial pressure on federal departments to produce clean audit opinions. The Bush administration has recognized the need for better financial reporting in the "improved financial performance" leg of its management agenda.[9]

Performance Reforms.

The federal government has experienced reforms designed to introduce more performance information into the budget process since at least the early 1950s. These

[5] See Schick (1980).
[6] See Joyce (1996).
[7] See U.S. Senate, Committee on Governmental Affairs (1990).
[8] See General Accounting Office (1993).
[9] See Office of Management and Budget (2007).

efforts waned somewhat after the 1960s and 1970s experiments with PPBS and ZBB.[10] Beginning with the CFO Act, which called for the development of "systematic measures of performance," and continuing throughout the 1990s, there were renewed administrative and—perhaps more importantly—legislative efforts to demand more performance information. Chronologically, the first of these was the 1993 Government Performance and Results Act, with its demands for strategic planning, performance planning, and performance reporting.[11] Consistent with this, the National Performance Review and specifically its call for "mission-driven, results-oriented budgeting" embraced the basic precepts of GPRA and called for the removal of "red tape" and an emphasis on accountability for results.[12]

Picking up on this theme, President Bush, within nine months of taking office, had established an ambitious management agenda, which included a call for "budget and performance integration."[13] Subsequently, the administration developed the Performance Assessment Rating Tool (PART), which was used to evaluate almost 1,000 federal programs during the development of the fiscal year 2004 through fiscal year 2008 budgets.[14]

In addition to affecting the preparation of the budget, these "performance reforms" have carried with them a different emphasis for the audit and evaluation stage of the process. GAO has paid, since 1970, much more attention to the "post-audit" phase of budgeting as opposed to merely the "pre-audit" phase. This has manifested itself on both the financial side (for example, audited financial statements) and the program side (audits and evaluations by agencies and GAO).[15]

Actions Designed to Change Signals Sent for Policymaking.

In a sense, the 1921 Budget and Accounting Act was the first modern attempt to change the signals that were sent to policymakers in the budget process. With its call for "economy" and its focus on budget presentation and budgetary accounting, this law clearly established the importance of budgetary accountability. Almost five decades later (1967), the President's Commission on Budget Concepts codified a set of principles for budgetary accounting designed in large part to support clear and transparent signals being set for federal budget policy. This desire for transparency has been evidenced in the evolution of the president's budget. For example, the U.S. government was one of the first in the world to give prominent attention to tax expenditures in its budget proposal, having done so since the early 1970s. Other prominent examples are discussions of the "investment budget" and the evolution of the "current services baseline."

Notable recent laws designed to affect future policies by changing the information that is available to policymakers include the Credit Reform Act of 1990, designed to clarify the long-term costs of federal loan programs at a time when those costs can be controlled.[16] Similar accrual arguments have been made for deposit insurance, pension guarantees, and flood insurance, to name three cases where the issue has been the ability to control liabilities at the point when they can be controlled.[17] A later example was the Unfunded Mandates Reform Act of 1995, which was designed to provide the Congress with information on the cost of

[10] See Schick (1973).
[11] See Joyce (1993).
[12] See National Performance Review (1993).
[13] See Joyce (2003).
[14] See Gilmour (2006).
[15] See Mosher (1984).
[16] See Cuny (1991).
[17] See Phaup (1991). Also see Feldman (1993).

mandates on state and local governments and the private sector—the notion here was that if the Congress knew the price tag, it would be less likely to impose these costs.[18]

Information on Economic Effects and Distributional Effects of Policies.

Federal spending makes up approximately 20 percent of the nation's total output (measured in gross domestic product) and thus has unambiguously important economic effects. Further, those effects must be looked at not only in aggregate, but in terms of how they affect various subpopulations. In the former case, there has been general recognition, across the political spectrum, that federal policies have broader economic effects. This argument could be made equally forcefully by President Clinton touting his "investment" policies (spending on physical infrastructure or employment and training programs) or Presidents Reagan and Bush (43) making a case for tax cuts. Stein argues explicitly for the concept of "budgeting the GNP" rather than assuming that the effects of policies stop at the borders of the federal budget.[19] Moreover, policies have increasingly been considered in terms of not only their aggregate effects, but distributional ones. The Congressional Budget Office, for example, began preparing distributional tables associated with major budget changes in the late 1980s; these distributional analyses—of both taxes and spending—have been a standard input into budget debates since that time.[20]

THREE SPECIFIC SOURCES OF MORE AND BETTER(?) BUDGETARY DATA

There are many possible sources of budgetary data that could be discussed in making the case that the president, Congress, and other federal executives have an increasing amount of data available to them when making budget decisions. Three of these, however, would seem most worthy of highlighting:

- the increasing amount of information available in the president's budget;
- the explosion of data produced by the Congress; and
- the proliferation of think tanks and the increasing attention of these think tanks to issues related to the budget.

The Evolution of the President's Budget

The Budget and Accounting Act of 1921, as noted, required that the president submit a budget proposal to the Congress. Over time, the law has been amended to require that particular types of information be presented. The specifics and format of the budget, however, remain a matter of choice for individual chief executives. Despite this flexibility, a review of presidential budgets since the enactment of the 1974 Budget Act suggests that the content of the budget proposals has been relatively stable. The budget includes a main volume, a budget appendix, and (sometimes) a budget in brief or a citizen's guide. There has been some variation from year to year, however, in the content of the additional volume referred to as the *Special Analyses* (until 1990) and the *Analytical Perspectives* (since then). Each of these volumes was intended to communicate information concerning topics of current interest or provide insights on various types of assistance or various ways of displaying budget figures.

A review of the contents of these volumes for seven fiscal years at periodic intervals since 1975 suggests that, while there is some variation from one presidential

[18] See Congressional Budget Office (2006a).
[19] See Stein (1989).
[20] See Congressional Budget Office (2006b).

Table 1. Topics covered in OMB's *Special Analyses* and *Analytical Perspectives*.

Topic	1976	1981	1986	1990	1996	2001	2008	Total
NIPA	×	×	×	×	×	×	×	7
Funds	×	×	×	×	×	×	×	7
Borrowing, debt investment	×	×	×	×	×	×	×	7
Investment vs. operating	×	×	×	×	×	×	×	7
Credit	×	×	×	×	×	×	×	7
Tax expenditures	×	×	×	×	×	×	×	7
Civilian employment	×	×	×	×	×	×	×	7
Aid to state and local govt.	×	×	×	×	×	×	×	7
Research and development	×	×	×	×	×	×	×	7
Current services estimates		×	×	×	×	×	×	6
Federal statistical programs	×					×	×	3
Economic assumptions					×	×	×	3
Federal balance sheet/acctg.					×	×	×	3
Federal receipts					×	×	×	3
User fees					×	×	×	3
BEA reports					×	×	×	3
Actuals to estimates					×	×	×	3
Off-budget entities					×	×	×	3
Systems and concepts					×	×	×	3
Civil rights	×	×	×					3
Science and technology		×				×	×	3

Source: Budget of the United States Government, *Special Analyses* (1976, 1981, 1986, 1990); Budget of the United States Government, *Analytical Perspectives* (1996, 2001, 2008)

Note: Table only includes topics that appeared in 3 or more years; numerous other topics were covered in 1 or 2 years.

administration to another, many of the elements of the volumes are consistent from year to year. Table 1 lists those items that were in each of the volumes reviewed, including:

- A discussion of the relationship between the budget and the National Income and Product Accounts (NIPA);
- The content of the budget, by fund (in particular, the difference between the general funds and various trust funds);
- Borrowing and investment requirements;
- Credit programs;
- Tax expenditures;
- Civilian employment;
- Current services estimates;
- Aid to state and local governments; and
- Research end development spending.

In addition, recent *Analytical Perspectives* volumes (the ones reviewed since 1996) have consistently included a number of additional elements, including information on federal accounting and balance sheet activities, economic assumptions, federal receipts and user fees, comparisons of actual spending and revenues to prior estimates, and a discussion of budget systems and concepts. Sometimes these volumes have included items of interest to particular administrations in particular policy areas, such as homeland security, civil rights, health, or national security.

There is also much more information available electronically than in the past. Spreadsheets are available to agencies and to the general public. These spreadsheets present data from the president's budget in many different forms and permit users to manipulate the data in many ways. In addition, a recent (and quite transparent) development has been the publication of the Program Assessment Rating Tool (PART) analyses of programs in the budget. Citizens, members of Congress and their staffs, and agency personnel can review online the results of each of the almost 1,000 PART assessments done in the FY08 budget.

The Explosion of Congressional Budget Capacity

Prior to 1975, there was precious little budgeting information produced by the Congress. Congressional committees frequently disclosed a cost figure as they considered proposed legislation, but they had every incentive to understate the cost, as stating the cost accurately might well run counter to what was frequently their main goal—which was passing the legislation. The Congress had a large staff agency (GAO) able to conduct studies when requested, but GAO had only recently (probably after 1970) begun to produce studies that could assist the Congress is making substantive budgeting choices, as opposed to determining financial compliance after the fact. All of this changed after the enactment of the Budget Act of 1974. This law, by creating two committees (the Budget Committees) and one agency (the Congressional Budget Office) that were explicitly focused on the budget, created a natural constituency for budget questions and a natural place to go for answers to those questions.

CBO is inarguably the most important legacy of the Budget Act, at least in terms of budgetary information provided to the Congress. What did CBO do for the Congress and the budget process? First it helped to keep the executive branch honest. By all accounts, the existence of two sets of numbers (and the knowledge that there *will be* two sets of numbers) acts as a natural brake on any president's inclination to "cook the books," and has put pressure on OMB to improve its own data and justifications for policy. Second, it has allowed the Congress to set its own budget policy without being dependent on data coming from the executive branch (see above). Third, it has produced credible numbers on the cost of changes to legislation, a tremendous change from the days when the foxes (the proposing committees) were in charge of the henhouse (estimates of legislative costs). Some of the effect of this is invisible—many costly pieces of legislation may not be proposed or may be changed as a result of the knowledge of CBO scoring. Fourth, it has helped the Congress to think more seriously about the budgetary and economic effects of pending legislation. Fifth, it has focused attention on the longer-term—first, five-year costs and later, ten-year costs, and eventually 50-year costs, of policies.

Table 2 presents a summary of the number of studies focusing explicitly on the budget or budget process that have been done by CBO since its inception in 1975. In total (including studies focused on government-sponsored enterprises and taxes), CBO has done almost 600 such studies in its 32 years of existence. In addition to that, CBO has averaged more than 600 cost estimates *per year* over the past 10 years.

CBO is not alone among congressional support agencies. The General Accounting Office (the Government Accountability Office as of 2005) has increasingly provided more data to support the Congress in its budgeting and financial management responsibilities. While CBO's staff is roughly 230, GAO has a much larger staff (almost 5,200 as recently as 1990, and more than 3,200 today), GAO is also in a position to support the Congress more broadly, because it works for the Congress as a whole, rather than only a limited number of congressional committees.[21] A series of

[21] See Mosher (2004).

Table 2. Budget studies conducted by CBO and GAO, 1970–Present.

	Congressional Budget Office							
	1975–1979	1980–1984	1985–1989	1990–1994	1995–1999	2000–2004	2005–2007	Total
Analysis of president's budget	7	11	8	6	4	7	4	47
Appropriations	0	1	0	1	2	3	0	7
Budget accounting/process	20	14	10	17	12	25	10	108
Budget and economic outlook	17	16	10	13	11	27	22	116
Budget options	3	6	5	5	4	4	2	29
Long-term budget issues	0	0	0	0	2	22	13	37
Sequestration reports	0	0	10	15	15	9	0	49
Unauthorized appropriations	0	0	4	5	5	7	12	33
Budgeting studies	**47**	**48**	**47**	**62**	**55**	**104**	**63**	**426**
Govt.-sponsored enterprises	0	2	4	3	2	5	1	17
Taxes	0	19	34	20	19	31	19	142
Total studies prepared	**47**	**69**	**85**	**85**	**76**	**140**	**83**	**585**

	Government Accountability Office								
	1970–1974	1975–1979	1980–1984	1985–1989	1990–1994	1995–1999	2000–2004	2005–2007	Total
Budget and spending	102	206	285	83	133	131	58	32	928
Financial management	1,103	784	589	310	374	419	530	242	3,248
Tax policy and administration	6	87	83	167	210	168	138	75	928
Total studies prepared	**1,211**	**1,077**	**957**	**560**	**717**	**718**	**726**	**349**	**5,104**

Source: www.cbo.gov, www.gao.gov.

Comptrollers General—first Elmer Staats (1966–1981), then Charles Bowsher (1981–1996), and David Walker (since 1997)—have made it an explicit responsibility of GAO to support the Congress in its budgetary decisions. Walker has made it part of his mission to tell the Congress things that it may not want to hear. Walker has spearheaded the "fiscal wake up tour," trying to incite the public to put pressure on his own bosses (and, to be fair, the president) to tackle the long-term budgetary problems of the federal government. He has gone as far as to appear on the CBS program *60 Minutes* discussing the irresponsible trajectory of current fiscal policy choices.

Table 2 also shows budget-relevant GAO work since 1970. Mostly owing to its larger size, GAO has done even more budget studies than CBO, having conducted 928 studies focused on budget and spending, an identical 928 focusing on taxes. If you include the more than 5,000 studies focused on financial management, it illustrates that GAO has inundated the Congress with information over this period.

The Congressional Research Service, less well known than the CBO and GAO (in no large part because their reports are not available to the public) also provides substantial information to the Congress, mostly of a factual nature. The Office of Technology Assessment also was a source of information for the Congress prior to its abolition in 1995. In this latter case, the information that it provided was largely limited to issues such as science and technology. The fact that it was identified with key influential Democrats contributed to its endangerment, and later demise, when the Republicans gained control of the Congress in 1994.

The potential influence of these support agencies is unquestionable, and it can be illustrated by a couple of examples. In 1993, when President Clinton proposed a substantial and controversial reform of the U.S. health care system, the CBO analysis—specifically concerning whether the transactions of the health alliances created by the reform were "taxes"—was credited (or blamed, depending on your point of view) with playing a substantial role in killing the reform.[22] Much more recently, when the Congress turned to GAO for testimony on shortcomings in homeland security or disaster assistance, or to offer an alternative view when General David Petraeus testified concerning progress in Iraq, it was viewed as a credible alternative to administration views on these topics.[23]

Aside from these congressional support agencies, the professionalism of the Congress as a whole, as reflected in the number and qualifications of congressional staff, has increased over the past three decades. The Appropriations Committees have had a relatively stable and long-tenured staff. The existence of the Budget Committees has created a staff capacity in Congress whose main interest is the budget—this had not existed prior to 1974, when most committees (outside of the tax writing committees and appropriations) saw their mission as being responsive to some key constituency (labor, agriculture, veterans, etc.).

Think Tanks and Budgeting

Another development over the past 30 years has been the increased attention of think tanks to budget issues. While think tanks, such as the Brookings Institution (founded in 1927) and the Urban Institute (founded in 1968), have existed for a long time, they have more recently turned greater attention to budgeting. Others, such as the Heritage Foundation (1973), and the Center on Budget and Policy Priorities (1981), are more recent arrivals and (more importantly) have a consistent and specific interest in influencing debates on budget policies. All you have to do to get a flavor for the movement toward policy advocacy by these think tanks is to compare the stated goal of the RAND corporation, which says that it wants to "achieve complete objectivity" to that of the Heritage Foundation, which wants to "formulate and promote conservative public policies."[24]

A review of the Web sites of Brookings, Urban, CBPP, and Heritage indicates that each of them has devoted substantial attention to studying federal budgeting issues. Brookings scholars have authored almost 100 books and articles on the federal budget, and nearly 300 more on taxes, since 1990. At the Urban Institute, there have been 150 publications on the federal budget and more than 4,000 (!) on taxes since 1984. At the Heritage Foundation, the numbers are 325 (budget) and 56 (taxes) since 1979. Finally, the Center on Budget and Policy Priorities, which exists solely to provide analysis on federal budgeting issues (particularly as they affect lower income people), has published hundreds of reports and analyses on these issues since 1990 (for example, more than 100 such reports and analyses were published in 2006 and 2007 alone).

Two other influential interest groups got their start in the 1980s and 1990s, organized around the theme of fiscal responsibility. The Committee for a Responsible Federal Budget (1981) has attempted to be a sober voice in budget debates, particularly emphasizing themes of fiscal responsibility. Later, the Concord Coalition (1992), founded by former Senators Warren Rudman (R-NH) and Paul Tsongas

[22] See Johnson and Broder (1996).
[23] See Kiely (2007).
[24] See Beam (1996).

(D-MA), attempted to focus attention on medium- and long-term fiscal policy dilemmas. Both of these organizations are notable for their bipartisan, middle-of-the-road approach and their emphasis on fiscal responsibility as the *sine qua non* of budgeting.

THEN WHY IS EVERYTHING SUCH A MESS?

I hope by this point to have demonstrated that there is a lot of information from a lot of different sources that is available to policymakers (the president and executive branch officials, and members of Congress) on the budget, and that there is substantially more than there was in 1970. Yet despite this relative glut of data, there is broad dissatisfaction with the budget process. In fact, there is bipartisan (and nonpartisan) agreement—among participants and observers—that the federal budget process is a mess. Observers do not necessarily agree on either the reasons or on the worst offenses of the process, but among the most prominent criticisms would include the following:

- The federal government does not enact its budget on time. In fact, all appropriation bills have been passed prior to the beginning of the fiscal year for only 4 of the past 32 fiscal years (including FY08). This has sometimes (but not since 1996) led to partial government shutdowns, disrupting government services and contracts.[25] Moreover, the Congress has failed four times since 1999 to enact a budget resolution *at all*. This represents a substantial recent deterioration, since budget resolutions had been enacted *every year* between 1977 (the first year of the budget process) and 1998.[26]
- The federal deficit, which had been eradicated in the late 1990s, has now returned to previous levels and it is uncertain when, or how, it will be eliminated again. Under the most plausible scenarios for policies over the next 10 years, there is no reason to believe that the deficit will disappear on its own.[27]
- The long-term fiscal problems associated with providing entitlement benefits to an aging population have been largely ignored by political leaders. This lack of attention has led key budget watchdog groups, such as Concord and CRFB, along with Comptroller General Walker, to conclude that the only option is to appeal directly to the voters.[28]
- The budget process encourages the provision of wasteful and particularistic benefits to narrow constituencies, most prominently evidenced by spending and tax "earmarks" ("pork," if you prefer). According to Rubin "[s]ome of these earmarks have been revealed as rewards for financial donors, contributing to the impression that government is corrupt."[29] And earmarks have been increasing substantially, on both the tax and spending sides of the budget.[30] This practice of earmarking, while often decried as a solely legislative phenomenon, is also practiced by the executive, although perhaps in an even less transparent manner.
- The budget process, instead of following international trends toward greater transparency in budgeting, has recently become even less transparent.[31] This lack of transparency is contributed to by the sheer complexity of the process. Choices (such as the exclusion or intentional understating of the cost of Iraq

[25] See Meyers (1997).
[26] See Lee, Johnson, and Joyce (2008, p. 296).
[27] See Congressional Budget Office (2007, pp. 20-21).
[28] See Government Accountability Office (2007a).
[29] See Rubin (2007, p. 608).
[30] Ibid., pp. 610, 613.
[31] Ibid., pp. 610–611.

and Afghanistan war funding in presidential budgets or the routine funding of disaster relief through supplementals) have tended to make the budget process even less transparent.
- Despite decades of attention to providing more performance information in the budget process, there is still little evidence that this information is used to inform budget policy, especially by the Congress.[32]
- In spite of almost 20 years of attention to GAO's "high risk" programs, the list remains long and daunting, and includes many problems that seem difficult and intractable, such as Medicare management, DOD weapons acquisition, NASA contract management, and enforcement of tax laws. These represent four of six items (out of 14) on the original 1990 high risk list that were still on the list 16 years later. As another measure of the magnitude of federal management problems, the 2007 list had 27 items, compared to these 14 in 1990.[33]

It is significant to note that dissatisfaction with the budget process, even among relatively dispassionate academic observers, is nothing new. In his classic 1990 article about failures of the budget process, Louis Fisher wrote that "[t]he current budget process followed by the Congress and the president is embarrassing both in operation and results."[34] Among the reasons cited by Fisher was the relative lack of transparency of the process and its failure to encourage responsible budgeting (specifically because, in his view, the 1974 reform allows the president to escape accountability for budget outcomes). The surpluses of the late 1990s may temporarily have convinced some that Fisher was wrong, but the current administration has shown a lack of responsibility by pursuing policies that make the deficit outlook worse, and has further shown a lack of leadership in failing to confront the problem.

I repeat this litany of shortcomings not because readers (at least those with the stomach to have been paying attention) will learn anything they didn't already know. The point is that, in spite of the proliferation of sources of budget information and the fact that some of this information is carefully derived and offered without partisan spin, budget outcomes do not seem to be any better. This is a point that Fisher referred to in 1990, choosing to quote former CBO director Rudy Penner, who said that he was struck by the fact that when there was no formal process prior to 1974, budget outcomes were generally good, but "[n]ow we have a process that looks very elegant on paper, but is leading to very dishonest and disorderly results."[35]

So the $5 trillion (this was roughly the size of the debt held by the public in 2007) question is *why*? Why are budget decisions not better when budget information is unambiguously more plentiful and probably of better quality? I do not promise to have the definitive answer, but I would like to offer some possible reasons to question the conventional wisdom (at least among budgeting professionals and scholars) that more information is necessarily better. These are explanations, in other words, for why academic and public perception about the efficacy of the budget process and public outcomes seem so disconnected from what we know about how much more—and how much better—data are compared to 30 or 40 years ago.

1. *You Can Lead a Politician to Water, But You Can't Make Him Care about the Deficit*. As much as those of us who study and practice budgeting would like to believe that better budget information must lead to better budgeting, the budget

[32] See Joyce (2003).
[33] See Government Accountability Office (2007b).
[34] See Fisher (1990).
[35] See Fisher (1990, p. 695).

process *is* a political process. Aaron Wildavsky may have been fundamentally correct in his criticism of PPBS, and his criticism may cause us to be a bit more humble in our expectations concerning the relationship between better information and good policy. Recall that Wildavsky argued that the problem with this reform was not "no one knows how to do PPBS." He went on to say that "I have been told that in a better world, without the vulgar intrusion of political factors (such as the consent of the governed), PPBS would perform its wonders as advertised." Wildavsky distinguished between supply of information and demand for information. He noted that it was one thing to talk about "measuring effectiveness, estimating costs, and comparing alternatives, but that is a far cry from being able to take the creative leap of formulating a better policy."[36]

In short, there is a certain arrogance to the notion that "we are giving them better information, therefore they should make better decisions." Better for whom? And why are our desired decisions better than theirs? If the Congress wants to use the budget to dole out pork, and their constituents re-elect them for doing so, is this necessarily wrong just because it offends our academic and expert sensibilities about what the "rational" allocation of resources would be?

2. *Budgeting Is Not Necessarily More Informed; Maybe the Participants Just Have Shinier Ammunition.* In the bad old days (before we had so much data), public officials usually made decisions to support or oppose policies based on constituent interests, information provided by interest groups, or strongly held opinion. Maybe when everyone has data, from apparently (allegedly?) credible sources, it does not make decisions better (or even more informed), it just allows proponents and opponents of policies to hide behind science—that is, behind competing sets of analyses and numbers. The most charitable interpretation of this is that the decisions are marginally more informed by data, and the more compelling data wins the day (or at least sometimes it does). The least charitable argument is that it becomes just a more (apparently) sophisticated way to make a political case. Beam argued in 1996, in fact, that part of the problem with getting "good" ideas to influence policy is that "bad" ideas may have similar currency, as long as they appear to be based on sound technical analysis.[37]

Consider, as a prominent example, the 1994 Clinton health care reform proposal. Some observers considered the extent to which its rise and fall depended on a rather arcane CBO analysis to be more than a bit unfortunate, given the stakes. On the other hand, it wasn't *really* about this—it was really about potential winners (the uninsured) versus potential losers (the insurance industry, perhaps the already insured). The argument about "big government" was always a bit of a smokescreen to hide raw political motivations. In fact, Johnson and Broder in *The System* make it quite clear that the Republican leadership, led by Newt Gingrich, instructed rank and file Republicans to oppose *all* health care reform.[38] Democrats engaged in similar demagoguery around Social Security reform a decade later. Both of these were more about presidential politics than policy, or even ideology. It made it easier to kill either of these initiatives if you could make it appear that the data were on your side. In these two cases—health reform and Social Security reform—the fundamental problem is *not* a lack of data. Would outcomes be better with less data? They could hardly be worse.

3. *No One Can Distinguish "Truth" from Noise.* Having said that policymakers do not use analysis in a way that illuminates policy debates, might there be more success if arguments were somehow taken directly to the people? As noted above, this is the premise of the "fiscal wake up tour"—that is, that elected officials may only confront real choices if the public demands it, and the public will only demand it if

[36] See Wildavsky (1969).
[37] See Beam (1996, p. 432).
[38] See Johnson and Broder (1996).

they are more informed. The difficulty here is one of credibility. A generation of Americans (probably since Vietnam and Watergate) has been told—by the media and politicians—that government is not to be trusted. And they believe it. In a 2000 poll, only 29 percent of respondents said that they trust the federal government to do the right thing almost always or most of the time. This was 10 percentage points lower than state or local government. Further, in response to a question that asked respondents to describe the level of confidence that they had in key U.S. institutions, only 19 percent said that they had a "great deal" or "quite a lot" of confidence in the Congress. The only institution that ranked lower was the entertainment industry; the military, on the other hand, had the highest rating (64 percent), ahead of even churches and synagogues.[39]

In this context, how is the average citizen to separate truth from rhetoric? How do I know as a citizen that, when David Walker tells me that taxes must be raised in order to finance the cost of current government programs, he is not just another government apologist with his hand poised to pick my pocket? Why should I believe that government uses my money wisely, just because someone tells me that there is performance information that demonstrates this? Someone else has competing statistics that reach the opposite conclusion. If I look at the PART review for some program that the Bush administration says is "effective," yet I have a personal experience that says otherwise, or my member of Congress says it's a waste of money, and has data to "prove" it, doesn't it all just become noise?

4. *Long-Term Data Do Not Always Lead to Better Policies*. One of the main criticisms of the federal budget process used to be that it occurred one year at a time, when more than half of spending was mandatory and tax policies had multiyear implications. "Year-at-a-time" budgeting, it was said, led to shortsighted thinking and encouraged politicians to just move the effects of policies to the out-years. In order to combat this, budget technicians encouraged the budget to focus on longer policy horizons—first five years, then 10, and now 50. There is some justification for this on the basis of attempting to combat shortsighted behaviors. But there are also spectacular downsides to such a forward-looking process. In early 2001, *both* OMB and CBO (who says they never agree?) forecast 10-year surpluses of $5.6 trillion. Politicians responded like sailors on leave—they *could* have their cake (beer?) and eat it too. They were assisted in this by Federal Reserve Chairman Alan Greenspan, who was concerned (and should have known better) that the surplus might get too large, and so counseled that it was high time for a tax cut. Therefore, the Congress and the president made long-term policies (the tax cut, the Medicare prescription drug benefit) supported by projections that made it easier for them to do so. The forecasting track record of CBO and OMB should have militated against putting much stock in these 10-year numbers, since analyses produced by CBO in particular showed demonstrably that the further out the projections, the less accurate they were. The question is—if only the five-year (or even one-year) numbers had been available, would these policies have been enacted? Or would there have been a bit more restraint shown?

5. *Human Beings Lack the Capacity to Comprehend All These Data*. It is just not possible for human beings to take in all of the information that is now available. Psychological research suggests that there is a limited capacity for individuals to process information. The point comes, therefore, where the complex nature of choices at the level of the federal budget present decision makers with, in some sense, information processing conditions most likely to lead to overload—which can negatively affect decision quality. Information is abundant, but so are demands on time and attention of policymakers.[40] Faced with information overload, people

[39] See NPR/Kaiser Family Foundation/Kennedy School of Government (2000).
[40] See Lurie (2004). Also see Speier, Valacich, and Vessey (1999).

tend to selectively choose the information that they want to focus on—even if they want to get it right (some don't—see #2 above) and ignore the rest. All that having all this information does is allow people to get more confused. Is the world really made better by having an argument—as occurred in 1995 and 1996—about whether CBO or OMB numbers are right?

CONCLUSION

If Stein is correct that for roughly 100 years budget reform has focused on information, but the reality is that the actual effects of that information have been either neutral or detrimental to budget outcomes, then it may be time for both budget reformers and the country as a whole to take stock of where we stand. Certainly there is minimal evidence to suggest that all of this information has made us better off as a nation, or that it has even made for a more smoothly functioning budget process.

This is not to suggest the absence of some positive developments, influenced by more and better information, over this time. For example, most CFO Act agencies (19 out of 24) did get unqualified opinions on their FY06 financial statements, a substantial increase from the 10 that received unqualified opinions in FY97. Undoubtedly, the availability of better accounting information was a factor that fueled this improvement. And cost and performance data may have influenced decisions on what to do with resources at the agency level, without necessarily influencing the level of resources received by agencies.[41]

Further, better estimates of the costs of pending legislation have likely influenced policy choices. A notable example of this was the Boeing tanker lease charade during the first Bush administration. The administration sold this policy as a simple lease that would be paid for out of annual appropriations. In reality, it was a costly lease–purchase agreement that would have committed the federal government to spend an estimated $23 billion in the future; the administration had no incentive to make the full cost of this proposal transparent. By some accounts, OMB staff had highlighted the future cost (and the necessity of disclosing the future cost) and been ignored. Arguably, had it not been for CBO's scoring on this issue, a very costly commitment of taxpayer money would have occurred.[42]

But while some developments, particularly at the micro level, have undoubtedly been positive, this does not change the fact that, at a macro level, the federal budget process is dysfunctional. It is reasonable to conclude that the basic problem is *not* that we lack the information to make better (or more responsible) decisions. There are three alternate explanations. We may have *too much data* that is overwhelming to those who might use those data. We may lack the right *people* who are willing to make those decisions. Or we may lack the *voters* who will demand those people, since these "better decisions" do not always square with local interests. History should cause us to be skeptical of reform ideas that focus, as past reforms have done, on improvements in information alone. The question going forward is precisely whether (and how) incentives can be created that will translate the vast improvements in budgetary information into budget decisions that are in the long-run interest of the country and its people.

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[42] See Mundy (2005). Also see Congressional Budget Office (2003).

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Better Information is Needed To Make Better Federal Budget Decisions

Kenneth Apfel

It's hard to take exception to many of Phil Joyce's conclusions. Defending the current federal budget process or recent federal budget outcomes would be foolhardy. In recent years, we have dismantled some of the most effective federal budget controls—the caps on discretionary spending and the laws requiring that increases in entitlements or cuts in taxes be offset to assure ensure deficit neutrality. We've gone from large surpluses to deficits as far as the eye can see.

As Joyce points out, the budget process is a political process. Both congressional budget processes and budget outcomes are only as disciplined as policymakers want them to be. And policymakers haven't placed a high priority on fiscal discipline.

We have created a mess. And Joyce's article also makes abundantly clear that while making this mess, we've also made strides in the quality of budget information available to policymakers, with improvements in financial management and performance information, as well as information on the economic and distributional effects of policies.

Is it true, however, that all this expansion in budget information has been for naught? Is Joyce correct that " . . . the actual effects of that [budget] information have been either neutral or detrimental to budget outcomes"?

I don't buy it. The existence of solid and reliable budget information has helped in the past to drive action in Congress. If anything, we need more and better budget information to deal with the future challenges we face.

Any effort to restore fiscal discipline must deal with health and retirement challenges. Joyce is certainly correct that politicians have ducked action in recent years on these issues. But, again, I profoundly disagree with his point that ". . . with health reform and Social Security reform—the fundamental problem is not a lack of data. Would outcomes be better with less data? They could hardly be worse."

In actuality, the existence of budget information has been centrally important to the enactment of prior Social Security reforms, and will be central to any future Social Security reform. And with health care, a fundamental problem is the *lack* of data on the fiscal and distributional implications of policy outcomes.

Let's look first at Social Security. In the early 1980's, high inflation and slow wage growth placed increasing pressures on the Social Security financing system. After years of contentious debate, Congress adopted changes that put the system on a much firmer financial footing. Those changes were politically unpopular—gradually raising the retirement age for full benefits, increasing payroll taxes, taxing part of benefits for higher income retirees, and delaying annual cost-of-living adjustments for retirees.

What role did budget information play in this process? These changes would never have been adopted without three key preconditions: (1) the existence of solid budget information regarding the dimensions of the long-term shortfall facing Social Security, (2) the existence of a general political consensus that this information compelled changes in policy, and (3) the existence of solid and reliable information on the budget and human implications of various policy reforms.

The Social Security changes adopted a generation ago were sufficient to finance the system for many decades—but as any budget expert will point out, more changes are needed. Presidents Clinton and Bush both pressed for further changes to Social Security financing.

During both presidencies, the existence of solid long-term budget information provided a compelling case that more changes to Social Security are needed. Appealing-sounding options withered away, however, after solid analysis was conducted by government institutions as well as outside groups on the implications of proposed policy options. For example, the realization that the Bush plan necessitated a 50 percent increase in the national debt—adding interest payments of over $100 billion a year for decades—and drastically lower benefits levels for future generations sunk the proposal.

Information does not take the place of consensus, but when the political stars again come into alignment, and they certainly will, I expect that the availability of information will be central to the next round of policy action, as it has been in the past.

But what role will budget information play in the emerging health reform debate?

First, it's clear to policymakers that health care is the most important federal budget driver, and that the rate of growth in federal spending per beneficiary has closely tracked that of private health care spending throughout the U.S. Political consensus is emerging—consensus informed by solid budget projections—that increases in health care costs will likely continue unabated, absent adoption of major policy changes.

policymakers are not just divided on what to do. There is a real information void, and a growing recognition that we need stronger tools to address the health care cost issue. We need to build knowledge about how to slow health care spending growth without compromising health care quality by curbing care that is not worth what it costs. Indeed, the Congressional Budget Office recently concluded that much more information is needed about the comparative effectiveness of treatments, procedures, and incentives, and that this information, if used to guide reforms, has the potential to greatly reduce health care spending. Without such information, policymakers will be greatly hampered in their ability to design effective expenditure-reducing measures.

Information will never substitute for political consensus, but information has helped and will continue to help us get to political consensus and make policy choices.

Many of Phil Joyce's points are right on target, but some or not. Herb Stein's dictum still applies: We need *better* information and *better* people if we are to make better budget decisions. Our budget projections make it abundantly clear that we face real budget challenges. When we get to the point that a new (and better?) set of policymakers takes fiscal responsibility more seriously, where will they turn for information? They will rely heavily on the analysis provided by both think tanks and federal institutions. That's been the history in the past. And in the future, with even tougher challenges ahead, policymakers will need more (and better) information—on both on the dimensions of the challenges that we face and the implications of alternative policy interventions.

Federal Fiscal Problems are Structural and Immune to Repairs of Budgeting Processes

Donald W. Moran

In this volume, Philip Joyce makes an important contribution to our understanding of the interaction of theory and practice in federal budgeting.

His is a tale of caution about our ability to improve federal budgetary decision making through process reforms. After recounting (and usefully documenting) this generation's efforts to increase the information available to policymakers to make budgetary decisions, he concludes that the actual process is still as much of a mess as it has always been, and that the process reforms adopted have done little more than enable recalcitrant politicians to "hide behind science" even while doing ever-increasing violence to the federal fisc.

As a former practicioner, I find that while Dr. Joyce's argument takes us in the direction of the light, it stops short of revealing an important truth about how theory and practice in the world of budgeting now interrelate. I believe that it is possible to make a stronger statement: Our long term fiscal problems are now so structurally embedded as to make them functionally immune from the sort of fiscal repairs that can be made in the formal federal budget process, regardless of how well informed that process might be about the costs and consequences of alternative policy choices.

The budget created in the formal process might be described as the "rationalistic" version of the federal budget. It is built from the presumption that a budget is a conscious act of creation, through which policymakers armed with detailed information about the workings of the federal establishment establish the optimal allocation of resources both from the public to that establishment, and from that establishment to the public. It views the federal government as a portfolio of "programs," whose costs can be fully known, and whose performance can be objectively evaluated. Each year, it calls policymakers to the task of reviewing the existing portfolio in light of new information about the cost/performance output of the programs that make up the portfolio, and offers the opportunity to add or subtract elements to increase the overall value of the portfolio.

Lest the reader conclude that I am describing a theoretical abstraction, the outline just presented informs the actual job description of the several thousand employees of the federal government who do budget process work on a daily basis, supported by the large and growing stream of information generated by the tens of thousands of employees assigned to collect it, digest it, and feed its net information content into the mill. It also engages a growing body of individuals whose work in other levels of government, commercial enterprise, and the not-for-profit sector revolves around the formal mechanics of federal budget activity, ranging from the high-level stylistics of the budget resolution process to the line item reality of enacting appropriations. This is an industry, with its own observers and critics.

Those critics have, over time, noted a number of concerns about the efficacy of the rationalist conception. As long ago as 1964, Aaron Wildavsky noted the tendency of the process to devolve into "incremental" change relative to prior budget baselines, rather than a process in which it was possible to fundamentally rethink prior commitments.[43] By the early 1980s, Allen Schick observed that incrementalism had been inverted to the process of finding a suitably large collection of budget cuts to achieve aggregate fiscal targets.[44] By the end of that decade, there was a growing consensus that there was no single explanation for the inability of the political system to budget effectively.[45]

In the 20 years since these observations were made, we have cycled back and forth between a consensus that long-term fiscal balance had finally been achieved and a conviction that our long-term budget problems approach intractability.[46] The prevailing view is now that long-term budget outlook is fiscally untenable, due primarily to the financial consequences of health care entitlements under current law.[47] Absent a major change in direction, these programs alone will consume something approximating 85 percent of the current federal revenue base by 2030.[48]

Why hasn't the federal budget process, which has been fully operational in the last 34 years of the 43-year existence of the Medicare and Medicaid programs, addressed this problem? There are a variety of reasons.

First, there is the obvious fact that budgeting is all about near-term fiscal policy (this year, and a few years thereafter), not about long-run fiscal balance. Hence, any policy prescription that gets policymakers through the 5- or 10-year budget window is a workable result from a budget process perspective. In the budget, 2018 showed up for the first time this year, and 2050 won't appear for another generation.

Second, those policymakers who *are* charged with dealing with the long-term fiscal structure of these programs—such as the trustees of the Medicare program—have based both their long-run projections and their policy pronouncements on the explicit assumption that extrapolation of prior experience into the indefinite future produces such ridiculous results that no policymakers in their right minds would ever permit them to happen—and hence, ergo, they won't happen![49] Given opportunity to appeal to Providence, what's the problem?

Third, those policymakers who have attempted, in the course of the federal budget process, to put the major health care entitlements under scrutiny have found that every sensible reform anyone can come up with in the annual budget process winds

[43] See Wildavsky (1964).
[44] See Schick (1983).
[45] See Rubin (1989).
[46] See Feder and Moran (2007).
[47] See Congressional Budget Office (2007).
[48] Author's personal calculations from federal budget data.
[49] See, for example, what can be read between the lines in the discussion in CBO (2007), pp. 9–16.

up being used to pay off competing political pressures to expand spending commitments elsewhere in these programs.[50] The annual need to save America's physicians from the fiscal consequences of the current-law payment update formula has become a long-running budgetary farce. The irony here is that few are aware that even the most dire projections of Medicare spending growth assume, under current law, that all the scheduled physician cuts will in fact take place. If they do not, the long-run problem is greatly exacerbated.

CAN WE "BUDGET" OUR WAY OUT OF THIS?

As suggested by the foregoing, it appears decreasingly rational to assume that the annual budget process—or any longer-term current budget cycle, for that matter—will prove to be an effective forum for addressing the structural problems embedded in federal finances—particularly with respect to the health care entitlements. Any effort to rationally allocate resources across competing federal priorities is frustrated when a narrow subset of the federal program portfolio has the capacity to grow its own food supply. In fact, it seems fair to say that the growing budgetary nihilism Joyce observes is a direct consequence of the disenfranchisement of policymakers from any meaningful degree of control over budget priority setting.

It follows that, if a solution to the deleterious effects of health care entitlements on the budget process is to be found, it will have to be fashioned, and implemented, outside the regular budget process.

A suggestion in this direction was recently made by the Brookings–Heritage Fiscal Seminar, a group of 16 former policy practicioners now in not-for-profit research settings.[51] Their idea was that the budget process should be amended to require Congress to establish binding long-run spending ceilings on the three major entitlement programs—Social Security, Medicare, and Medicaid—and then use a series of mandatory five-year reviews to fashion policy modifications, over time, to adhere to these targets.

While I believe that this sort of thinking moves the debate in the right direction, some additional considerations will need to be thought through before a workable policy framework could be established.

First, it will almost certainly be necessary to separate Social Security from the health care entitlements in order to fashion a politically workable policy framework. While extrabudgetary policymaking regarding these programs could easily be conducted in parallel, any framework that appeared to force these two groups of programs to compete against each other for resources within an aggregate budget envelope would be a framework for political paralysis. Federal policymakers should take the heat for setting discrete resource targets for these programs, rather than ducking those decisions to others.

Second, it will almost certainly be necessary to legislate a hard threat condition that made failure to achieve consensus on new programmatic approaches sufficiently unpalatable that failure would not be tolerated. While there may be a variety of programmatic alternatives, whatever threat condition was enacted would be fiscally efficacious (in the sense of being highly certain to achieve budgetary targets) and hence excruciatingly expensive to repeal (in the context of the regular budget process). To offer one unpalatable example, it would be possible to give the Secretary of Health and Human Services the explicit authority and direction, effective five years from the date of enactment of enabling legislation, to meet the applicable budget targets by means-testing Medicare benefits—however deeply that had

[50] See Feder and Moran (2007).
[51] See the Brookings-Heritage Fiscal Seminar (2008).

to be done to achieve fiscal balance. That authority could remain in effect until repealed by subsequent legislation to implement a more palatable reform program. To prevent whitewashing the problem, a variety of mechanisms could be employed to ensure that the Congress couldn't pass, and the president wouldn't sign, legislation that was not judged by both bodies to actually achieve the fiscal targets.

Third, whatever process was put in place to develop the program redesign agenda would need to be managed by a serious policymaking body, not a hortatory chowder and marching society. Whatever sort of entity was chartered, its mission would be to fashion legislation that a majority in Congress could enact, and the president could sign. Its membership, perforce, would need to be composed of individuals who had domain expertise and policymaking experience, and who were explicitly chosen to be representatives of the partisan political affiliations that will need to be represented to concoct a workable deal.

As suggested by the Brookings–Heritage scholars, the critical point here is that developing a practical political consensus on workable details for wide-ranging reforms will be a full-time job over a substantial number of years. While such a process cannot, strictly speaking, be part of the regular budget process as we now understand it, disjoining such an effort from the "unified budget" may be strictly necessary to saving that budget process from irrelevance.

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Federal Budget Decisions are Bad Because it is Much Harder to Make Good Choices

Rudolph G. Penner

There is no disputing the basic thesis of Joyce's excellent analysis. Budget policy has gotten worse as budget information has gotten better. But formulating budget policy has become more difficult and, in large part, I believe that explains why it has gotten worse.

In fiscal 1959, President Eisenhower was terribly embarrassed as the budget deficit headed toward a peacetime record of $13 billion.[52] The Republican president

[52] That is the unified budget deficit calculated according to modern accounting rules. In 1959, most attention was paid to the administrative deficit, which did not include trust funds.

got together with the leadership of a Democratic Congress and worked out a 1960 budget that increased tax revenues from 1959's 16.1 percent of GDP to 17.9 percent and reduced outlays from 18.7 to 17.8 percent of GDP. Nominal noninterest spending was cut by over 1 percent, with the heaviest burden falling on defense and nondefense functions other than human resources. The 1959 deficit of 2.6 percent of GDP was wiped out and a small surplus emerged in 1960. It was the second biggest negative fiscal shock since before World War II[53] and probably contributed to the economic problems of 1960 and the election of John F. Kennedy, but I digress.

Neither the fiscal rigor nor the bipartisan cooperation that characterized the Eisenhower Administration is thinkable today. The current budget is dominated by three large programs—Social Security, Medicare, and Medicaid—all of which are growing faster than tax revenues and the GDP. Medicare and Medicaid had not been created in 1959 and Social Security constituted only 11 percent of noninterest outlays. In fiscal 2007, the three programs were responsible for 45 percent of noninterest outlays.[54] Over the past 50 years, the inexorable growth of Social Security, Medicare, and Medicaid has been largely paid for by a decline in defense spending relative to GDP, but with defense down to 4 percent of GDP despite two wars, we have just about come to the end of that road. The overall tax burden has been remarkably constant, varying between 17 and 19 percent of GDP over almost all the past 50 years.

Given the political reluctance to take back any of the promises inherent in the big three programs and given the very strong aversion to tax increases, the Congress has very little flexibility to formulate a rational, responsible budget. They could regain flexibility by painfully reforming Social Security, Medicare, and Medicaid or raising tax burdens, but that is hard to imagine without bipartisan cooperation—and bipartisan cooperation is hard to imagine. It has only existed in recent years when the Congress is giving away money, as with the Medicare prescription drug bill or the 2008 stimulus program.

It is difficult to explain the rise of poisonous partisanship. Some believe it is related to scientific redistricting that has made the world safer for House incumbents and created an atmosphere conducive to the election of ideologues.

While I believe that budgeting has become more difficult mainly because a larger and larger portion of revenues is eaten up satisfying promises made in the distant past, there are other problems as well. The relentless pursuit of campaign financing leaves the typical legislator much less time to reflect on policy issues. The pursuit is time consuming in two ways. It means much time on the telephone soliciting donations and at fund raisers. Then access must be provided to influential donors and their associates by phone or in meetings. (I am not saying that donors buy votes on policies. The donors' main advantage is getting access to make arguments that may or may not be accepted.)

There is yet another problem that is briefly discussed by Joyce. It is hard for policy analysts to admit, but some of the information that they provide is of low quality. The revenue forecasts that are so important in budgeting are highly inaccurate.[55] The CBO revenue projection for 2007, first made in 1997, has varied over the years through a range of over $800 billion because of changes in economic and technical assumptions. In doing micro cost estimates, CBO often has to work in the dark, with very little meaningful data. For example, to estimate the cost of a

[53] The largest negative fiscal shock occurred between 1968 and 1969, when the Vietnam surtax was imposed after wartime defense spending started to fall.
[54] Calculations are based on totals grossed up for offsetting receipts.
[55] See Penner (2008)

loan to Israel, CBO must estimate the probability that Israel will default. How do you do that?

Almost all CBO estimates are based on better data, but uncertainties still abound, and it is amazing how well the Congress receives those estimates. Very few of the more than 600 estimates produced each year become controversial, and there is no doubt that they are influential. That is evidenced by the army of lobbyists that argues for more friendly estimates. I think that on balance CBO's estimates have been a force for the good, much more than in Joyce's reference to "idiosyncratic developments," but then I am prejudiced.

In the end, as Joyce implies, budgeting is an adversarial activity. Both sides of an issue try to muster the best information available to buttress their case. As the flow of information to both sides has improved, the debate gets better, but it may be that the final decision is the same as if both sides were working with poor information or no information at all. I prefer to believe that some portion of the decisions has improved as information flows have improved, but it may be a small portion. That is as much as policy analysts can hope for. If we were more influential, we'd be paid better.

So, in the end, I return to my main conclusion. Budget decisions are worse because it is so much harder to make good ones. We must take Social Security, Medicare, and Medicaid off the auto pilot that is flying them into the stratosphere, so that Congress can better assess tradeoffs among these programs, other entitlements, discretionary spending, and the tax burden. Now, if the Congress does nothing, the three big entitlements eat up a disproportionate share of our resources and squeeze out other activities of government. The problem must be fixed, but that is a whole other topic.

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Federal Budgeting: When Do the Electoral and Analytic Imperatives Meet?

Paul Posner

Phil Joyce has provided a provocative assessment of the implications of policy information and analysis for federal budgeting. His conclusion is controversial, thought provoking, and depressing—that the rise of information and transparency in budgeting has not led to better policy results. For someone like myself who has spent years leading GAO's work on federal budgeting in my recent past, this is a depressing finding indeed.

There is no question that Joyce paints a picture of contradiction in federal budgeting. It is an era that Dickens would have loved—the best of times on the one hand, with better information and analytics available to decision makers than ever before, yet the worst of times as deficits continue to grow, long-term fiscal dilemmas remain unaddressed, and seemingly simple actions such as passing appropriations and budget resolutions have become increasingly rare events.

Perhaps in one last attempt to rescue my GAO career from irrelevance, I want to suggest that things are not as bleak as they seem from Joyce's paper. First, I worry that his paper shares the tendency of analysts to overstate expectations for the role that information should play in a democratic society. As Carol Weiss's path-breaking work has shown over the years, there are many kinds of impacts that information and analysis can have, short of causing a change in policy direction. This includes what she calls the "enlightenment function," where information can elevate the nature of the debate—a salutary effect even if the outcome is not changed from what it would otherwise have been.

Second, even though we seem to be drowning in a veritable sea of information, in fact the politics of budgeting have become ever more difficult and challenging as we have asked the budget process to fill a constraining role that used to be dealt with through our political system. As the system became more polarized, the budget process was asked to do what folkways and norms and political incentives used to do more on their own. By process, I mean explicit rules and institutions that perform agenda setting, provide criteria and frameworks for decisions, and mete out accountability when rules are violated. The fact that the budget process has become more central for the political system to make hard choices makes the budget process more necessary but also more vulnerable and less sustainable. Congress and the president needed rules to save themselves from their own centrifugal forces in a political system that had become more polarized and difficult to control. But for the same reasons, such rules were difficult to sustain.

The tradeoffs and hard choices that budgeting requires are far more difficult to achieve under this new political system. The virtual fishbowl of media and interest group coverage makes forming coalitions and winning necessary concessions far more difficult and even politically hazardous for members and presidents alike. The disappearing middle in Washington removed the ballast that is often so essential to bring about fiscal order from the political cacophony that is Washington today. Against this backdrop, the rather limited impact of information could be viewed as remarkable. Much like the proverbial dog walking on hind legs, what is remarkable is not that the dog walks so awkwardly, but that it walks at all!

Tracking the roles played by information in a complex process like budgeting is particularly difficult. While studies of evaluation can examine the effects of a discrete report on a specific policy area or decision, tracking the flow of information and guidance from CBO on budget decisions is a far more complicated task. For instance, when examining the impact of budget points of order—a crucial process enforcing budgetary rules—their anticipatory effects are most likely more important than their observable effects. Thus, while Congress may not in fact exercise points of order when budget proposals violate their own budget frameworks, members of Congress often anticipate the possible effects of points of order being raised when crafting legislation. This informal process defines how the Unfunded Mandates Act works to occasionally restrain congressional mandate proposals. While Congress has not raised or sustained actual points of order against unfunded mandates coming to the floor, members have modified legislation in some areas to avoid the prospects that opponents could raise the point of order on unfunded mandates. While falling short of influencing decisions on the large macro questions such as the deficit, such a modest, albeit hidden, influence is constructive and positive.

I would further suggest that Joyce's pessimistic conclusions about the role of analysis may be time limited. Certainly, trends in this decade on the macro budgetary outlook have been largely negative—deficits have grown, earmarks have grown, and budget resolutions have more often failed than passed. However, this same assessment cannot be made of the budget process in the 1990s. In this era, the budget process regime—caps on discretionary spending and PAYGO rules for entitlement and tax changes—not only reflected an expert consensus but were actually drafted by budget experts in the Congress and OMB. And such rules had a good track record of restraint in an era when political leaders were looking for processes and information to bring about budget balance and even surpluses.

Indeed, budget process regimes and information have episodic influence based on the presence or absence of a number of key political factors in the broader environment. Budgeteers have to pay far more attention to the relationship between process and politics. As Joyce has written elsewhere, the naïve assumption that tinkering with process can yield real results in budgetary outcomes supported by political leaders is not often supported by this history. Indeed, the relationship between budget process reforms and political systems is contingent on such factors as the nature of the pathway supporting the reforms, the alignment between the interests of political leadership and those of budgeteers in the "expert community," and the condition of the economy itself.

In a model developed with several colleagues, we suggest that policy changes in many areas, including budget process reform, are realized through several different "pathways to power." A fourfold typology of "pathways to power" was developed to capture the more diverse ways that new issues reach the agenda and take policy form: pluralist, partisan, expert, and symbolic.[56] Each of these strategies draws on different political resources, appeals to particular actors, and elicits its own unique strategies, language, and styles of coalition building.

With regard to the budget process itself, this model can be used to chart the episodic role played by budget analysts in developing budget reforms. For instance, the 1974 congressional budget process reflected a consensus among experts and party leaders—a process that was supplemented in the mid-1980s by Gramm-Rudman-Hollings. Here, Congress ignored the advice of budget experts as members were seized by the symbolic pathway to reach for a desperate measure to appear to solve the deficit. Within five years of this legislation, the Budget Enforcement Act was instituted through the expert pathway, overturning the unrealistic and self-defeating regime of GRH. As the nation transitioned into surplus, the BEA regime no longer suited the needs of members, who reached for the symbolic tool box to embrace the Social Security lock box. Finally, the partisan pathway reared its head in the early 2000s, as the old budget process regime of BEA was allowed to disintegrate to enable the passage of the president's tax cuts and certain spending initiatives as well. Thus, the past 30 years of budget process reforms can, like the other policies, be attributed in no small part to shifts in the primary pathway driving political choice in Congress. And there is some evidence that each pathway sows the seeds for the emergence of other pathways—symbolically drawn reforms precipitate interest in expert-based reforms, and expert-based reforms can prompt a counter-mobilization by interest groups in the pluralist pathways seeking to regain budgetary leeway and resources.

This more contingent and episodic role of analysts and information in budgeting is similar in other policy areas as well. Although conventional wisdom suggests that analysis will not be critical for high-stakes policy issues, in fact the input of experts was critical in setting the state and defining alternatives for such major reforms as

[56] See Posner, Conlan, and Beam (1994).

airline deregulation, welfare reform, 1982–1983 Social Security reform, 1986 tax reform, and 1996 farm reforms. Indeed, at this time, the policy ideas of experts assumed a valence status that could not be ignored by leaders. Beyond these higher-level cases, analytic input has been critical in setting the agenda and in developing policy alternatives across a range of issues—whether it be Medicare reimbursement formulas, formulas allocating billions in grant dollars, or financial reforms of federal deposit and pension insurance programs—analysts from GAO, CBO, federal agencies, and think thanks have played vital roles in problem definition and solution development. However, like the budget, these hard-won analytic gains were often reversed in whole or part by pluralist and party-based pathways in subsequent years.

Whether the cases discussed above are increasingly prevalent or less representative of congressional actions in total, they beg further explanation. Given the profound cynicism about political interest in analysis and oversight, its discovery should be greeted with at least a modest dose of good cheer. It also should prompt us to consider more systematically what political forces exist to prompt the occasional interest of political officials in analysis and expert input. These cases suggest that there are times when the electoral and analytic imperatives become aligned, at least at important junctures. We might look to such forces as blame avoidance, shame avoidance, and competition with other actors for credit claiming, among other variables. We also need to better understand the arenas, types of policy interventions, and institutional variables that make a difference in promoting the nexus between analysis and the politics of policymaking. Ultimately, as Joyce points out, the stakes are high and it is time for those of us in the analytic community to become political as well as budgetary analysts.

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The Federal Budget: The Erosion of Bipartisan Fiscal Discipline

Alice M. Rivlin

In his provocative paper, Professor Joyce points out that there has been an explosion of information about the federal budget over the last several decades, while both the budget process and macroeconomic budget outcomes have deteriorated. He argues that, contrary to expectations, more information has made the budget process dysfunctional and budget deficits worse. While he does not advocate suppressing information, he concludes that budget reformers should rethink their hopes that more information will lead to better choices and find some other (unspecified) way of improving budget decision making.

We live in an age of information overload. Recent years have witnessed an explosion of documentation that good nutrition and frequent exercise improve health. Nevertheless, the prevalence of obesity is reaching epidemic proportions. Although some nutrition and exercise information—like budget information—is confusing and conflicting, I doubt Professor Joyce would blame excessive information for Americans' failure to do their aerobics and eat their broccoli. Some decisions, public and private, are really tough, and more knowledge does not guarantee wisdom or willpower.

Joyce does a nice job of documenting the contributions of executive branch and congressional agencies, think tanks, and nonprofit groups to the flow of projections, budget analyses, financial management reports, and program evaluations that have reached flood stage in recent years. He could have added the work of academics who teach and write about the federal budget in public policy programs and journals like this one—not to mention the budget analysis of varying reliability to be found all over the Internet. The quantity is, indeed, overwhelming, and even one who fancies herself a federal budget maven cannot digest a significant fraction of it.

But information overload should not take the rap for the unsatisfactory state of the budget process or the fiscally irresponsible outcomes of recent years. Professor Joyce is right that the processes by which the United States makes federal budget decisions are complex, opaque, time consuming, and contentious, and the decisions are usually late and occasionally not made at all. The budget process ought to be simpler and more understandable. But the process problem is not too much budget information; it's too many actors and decision points.

The Constitution is part of the problem. The separation of powers and a bicameral legislature mandate that we have three separate budget processes (presidential, House, and Senate), whose outcomes must be reconciled before a budget is final. Budgeting would be easier if we had a parliamentary system—or a dictatorship!

The constitutional complexity has been greatly compounded by the proliferation of committees, subcommittees, and complicated rules that have accreted over recent decades. Congress never simplifies its processes by eliminating committees or subcommittees or decision points—that would be too threatening to someone's power base. Instead, process reforms add new decision makers, and the reformed process becomes so complex that neither the participants nor the public understand what is going on.

The Budget Reform Act of 1974 was both a significant process improvement and a major opportunity missed. The improvement was giving Congress the ability to make decisions about the budget as a whole and fit the specific spending and revenue measures into an overall fiscal framework. It also moved from one-year-at-a-time budgeting toward multiyear budget planning. The missed opportunity was layering the functions of the new Budget Committees on top of the already complex set of committees and subcommittees dealing with authorizations, appropriations, and revenues without any compensating simplification. The Act added more duties, deadlines, and decision points without subtracting anything. (I testified at the time that budget committees were essential to a more comprehensive congressional process, but that it would be sensible to reduce the total number of committees by combining the authorizing and appropriating committees into a single set of "program committees." That is still a good idea.)

But even this complex process can lead to fiscally responsible outcomes, as it did from 1990 to 2000. By the 1980s, Congress, in the face of mounting deficits, designed budgeting rules to enforce fiscal responsibility. The first experiment, Gramm-Rudman-Hollings, failed, but the process reforms in the Budget Enforcement Act of 1990 were an astonishing success. The Act required caps on discretionary spending within which disputes about priorities were fought out, and PAYGO, which obviated any spending cut or entitlement increase not accompanied by equal and opposite offsets over the budget period.

Budget rules don't cause fiscal responsibility, but they help decision makers act responsibly if they want to. The transformation in the federal budget in the 1990s—from an escalating deficit to a large and growing surplus—occurred because there was strong bipartisan consensus that the budget should be balanced, and rules were in place to help achieve the goal. The caps helped restrain spending growth (made conveniently easier by the end of the Cold War), and PAYGO kept both the executive and legislative branches from proposing tax cuts or entitlement increases that would increase the deficit. The strong economy contributed to greater than expected success. Allowing the rules to lapse was a mistake, but this reflected the erosion of the bipartisan focus on fiscal discipline after 2000.

Joyce blames the demise of the Clinton health plan on CBO's scoring it as a large increase in the size of government, and passage of the first Bush tax cut on misinterpretation of projections of a large surplus in the federal budget. I disagree. The Clinton health plan failed because the administration was unable to convince the Congress and the country that it was a workable, affordable plan. The Bush tax cuts passed because the president made them the centerpiece of his campaign and was able to convince a substantial number of Democrats to go along. Scoring and projections were of marginal importance.

Joyce is right that better information by itself does not lead to more courageous political decisions, and that the budget process urgently needs to be simplified and made more transparent. However, I do not share his despair over the political process and the ability of citizens to influence it. According to Joyce, "You can lead a politician to water, but you can't make him care about the deficit." But the history of the 1990s proves otherwise. Politicians care about deficits when they believe they are damaging the economy and think their constituents want them to act responsibly. The budget choices facing the next president and Congress are especially daunting because the baby boom generation is retiring and the health care entitlements are on track to push federal spending continuously upward. Joyce alleges that there is no point in trying to talk to the public about these issues, because citizens no longer believe anything that people in authority say—"No one can distinguish 'truth' from noise." But I find him overly pessimistic. There is accumulating evidence that ordinary Americans are actually better than their elected leaders at grasping the choices the country is going to have to make. Given relevant information and a little time, they can work their way to sensible compromises. If that is true, there is more hope for their elected leaders than Joyce concedes.

Policy Analysis Can Inform Federal Budget Choices, But Only if There is Political Will

Philip G. Joyce

I have nothing but respect for all those whose job description includes trying to inform budget decisions and carry them out. I have spent 10 years working in budget offices giving budget advice and another 15 teaching students who I hope will do the same. I am committed to the principle that, at some level, systematic and professional presentation of information matters. I have elsewhere been clear about what information can do (that is, *inform*) and what it cannot do (that is, cause better policy).[57] Against this backdrop, I am genuinely appreciative of the care with which the distinguished group of "practitioner-scholars" read my article and provided their very thoughtful reactions. Given the magnitude of the problems facing the country, and the abysmal recent record of federal budgeting in mitigating those problems (as opposed to intensifying them), I think the time has come for a frank discussion about what we as analysts can do, and what we can't. It was my intent to be provocative at this juncture, and on that score, I seem to have been successful.

My main point concerning the relationship between budget information and policy outcomes was *not* that those negative outcomes are caused by analysts or by budget information. Rather, availability of information does not seem to have (at least recently) made things much better. If I appeared to argue that information is to blame, it was unintentional. My argument is that, for the most part, the improvement in data has apparently not convinced presidents or lawmakers to enact fiscally responsible policies, unless already so inclined. (An exception, I believe, was in 2001, when 10-year projections of $5.6 trillion in cumulative surpluses set a positive stage for enabling tax cuts. I believe that projections with a shorter time horizon would have made it more difficult to enact such irresponsible policies.) On whether information on the budget deficit led President Clinton to embrace deficit reduction, a political imperative—the desire to appeal to the Perot voters in 1996—had a lot to do with Clinton's enthusiasm for deficit reduction. The fact is, however, that for whatever reason (and Rivlin was there; I was not), President Clinton decided to take on the deficit. My point precisely, as clearly articulated by Rivlin, is that budget information "can help decision makers act responsibly if they want to."

The main problem now, it would appear, is that they don't want to. Failure to act appears attributable primarily to an intensely partisan political environment with hostility to data—except for self-interested use to promote preferred positions. As both Penner and Moran point out, a partisan environment (as bad now as ever, perhaps) is poisonous to efforts to put the larger public interest ahead of desires for political power and partisan gain. This sad state cannot be helped by the reality that problems are more intractable, given the budget share consumed by popular entitlement programs.

In this context, the relevant question is—does budget information stand a chance of being employed in the public interest? Rivlin is certainly correct that CBO's analysis did not kill Clinton's health care reform. A combination of partisan opposition (Newt Gingrich instructed his Republican troops to oppose *all* health reform) and entrenched interests did. But the CBO analysis gave them another arrow in their quiver.[58] If politicians are hostile or indifferent to analysis (this, by most accounts, characterizes attitudes of the current administration), professionally presented information will have little impact. In an environment where there is consensus on major policy directions, analysis can *inform* choice of actions; it cannot cause those actions to occur. At this moment in time, a lot of information is being produced to little end. Again, this is not the fault of the information (or budget analysts); it is an indictment of a lack of political leadership and a failure of the citizenry to demand that leadership.

This does not mean, however, that there is no hope, nor does it mean there is no role for analysis. Apfel makes a very useful point concerning the importance of analysis in dealing with the impending crisis of health care financing. Clearly,

[57] See Horney and Joyce (1993). See also Joyce (2004).
[58] See Johnson and Broder (1996).

we do not know enough about likely effects of various policy choices; professional due diligence requires that we learn as much as possible now to inform future choices. The Social Security challenge offers a counter-example. I suggest the problem is *not* that we don't know what to do, but that—at least since 1983—we have chosen not to act. When the planets and stars align at some later date to empower action on Social Security or health care, professional budget analysis will help highlight viable alternatives. Until then, analysts will work hard to illuminate these future debates, waiting for the day when budgetary information will influence political choices.

I want to reassure Posner, and all my friends in the federal budgeting and policy analysis communities, that I do *not* perceive their work as irrelevant. I have nothing but respect for objective analysis and the people who do it. I am not as big a fan of political argument disguised as analysis. Many decisions made every day in the federal budget process are informed by analysis. The Unfunded Mandates Reform Act offers an example, as Posner suggests. I also would include many specific micro-level decisions—to contract, to make grants, to provide resources to programs—made during budget execution. During the 1990s, PAYGO often discouraged the enactment of individual policies that would have added to the deficit. PAYGO, on the other hand, could not stop the 2001 tax cuts, because there was a widespread consensus that cutting taxes was desirable. No procedural rule could have halted that partisan policy change.

Every one of my responding colleagues, in some form, points out that there are substantial limits to what information can do, absent some specific political consensus to solve problems. I agree. This is true whether those problems are substantive (such as health care and Social Security) or procedural (such as chronic failure to make budget decisions in a timely fashion). Absent political will, any proposal for information-based budgetary solutions should be greeted with suspicion. These would include (but not be limited to) the frequently heard exhortations that all we need is to bring back the 1990s-era discretionary spending caps and PAYGO to solve the deficit problem; or give the president a line-item veto to deal with earmarks. To repeat Rudy Penner's frequently cited reminder: "The process is not the problem. The problem is the problem."

I do not think that analysts, or analysis alone, can do much to engender political will. Analysis comes into its own once there is agreement that problems *should* be solved. I fervently hope this consensus develops soon. Perhaps the 2008 presidential campaign (ongoing as we write) will feature an illuminating debate on the problems facing the country, setting a stage for budgetary solutions to emerge. At the same time, sadly, I am not holding my breath. A June 2008 comparison of presumptive candidates' tax plans suggests that while Senator McCain's would add $4.2 trillion to cumulative deficits over 10 years, Senator Obama's would add a mere $2.9 trillion to those deficits.[59] Whether after the current presidential campaign or later, when a consensus to solve the nation's fiscal problems finally emerges, analysts will (as always) be there to assist. Until then, they must toil in largely depleted fields.

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