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Budgeting in the United States

by

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1. Budget formulation

1.1. Introduction

The budgetary process in the United States federal government is different from that in other OECD member countries. This is a consequence of the strict separation of powers that characterises the American constitutional system and of a long historical development in which new layers of institutional innovation were successively added to existing ones. The presidential budgetary process started to develop in the beginning of the previous century. Its first codification took place in the Budget and Accounting Act of 1921, which required that the President submit a budget for the government to Congress and created the Bureau of the Budget, now the Office of Management and Budget (OMB). In the 1970s, Congress changed its own budgetary process through the Congressional Budget and Impoundment Control Act of 1974, which created the Congressional Budget Resolution and established the Congressional Budget Office. Another layer of innovation was added during the 1980s with the aim of controlling the deficit. This began with the Balanced Budget and Emergency Deficit Control Act of 1985, commonly known as the Gramm-Rudman-Hollings Act, which in 1990 was fundamentally amended by the Budget Enforcement Act.

The budgetary process in the United States is also different from that in other OECD member countries in another respect: the formulation phase, at the presidential as well as at the congressional arena. It is to a large extent codified in procedural rules: statutes, executive regulations and rules of the chambers of Congress. Whereas there is a wide variety among OECD member countries in the degree of codification of budget execution, the formulation phase of the budgetary process tends to be lightly regulated in most countries. This is not the case in the United States. As various observers have noted, these rules serve to “canalise” potential conflict in a highly politicised environment. This politicisation stems on one hand from the prevailing constitutional and electoral systems and on the other hand from the absence of strong party discipline. Both factors together make the President and the members of Congress highly autonomous players. In such an environment, decision-making tends to be slow and difficult. However, in many cases it appears to be possible to agree on procedural rules that are perceived as fair and impartial, in situations in which agreement on substantive policies would be hard to achieve. After the rules have been established, the political debate

will go on as lively as before, but the rules will guarantee that the process will come to an end and that decisions will be taken.

The President's budget has always been, and still is, only the first step in the preparation of the budget. How influential it is depends mainly on the political situation and in particular on the size of the President's party in each chamber of Congress. Currently, the President's party has a majority in the House of Representatives and in the Senate, which in principle should give the President's budget recommendation a stronger influence on tax and spending policy than it has had in the recent past. However, the President does not have "super-majorities" (see Section 2) in each chamber, which in turn limits the influence of the President's budget proposals.

1.2. Legal framework

As in other OECD member countries, public expenditure in the United States is determined by two types of legislation: substantive and appropriations legislation. Substantive legislation prescribes the programmes that the government is to carry out. For that purpose it creates the policy instruments (for instance, cash benefits or provision of services in kind); it specifies the conditions under which the instruments are to be applied, including eligibility rules; it establishes the public organisations that are to carry out the programmes; and it defines the competences of public authorities concerning programme execution. Appropriations legislation authorises public authorities to incur obligations and to liquidate the obligations by means of payments (outlays). A special feature of the relation between substantive and appropriations legislation in the United States is that substantive legislation must specifically authorise subsequent appropriations. It is therefore often referred to as authorising legislation. It can authorise appropriations on a permanent basis or for a limited period of time (permanent or temporary authorisation). Authorising legislation may also directly authorise the incurrence of obligations or the making of payments. This is called direct spending (or mandatory spending) as opposed to discretionary spending. Direct spending is effectively controlled by authorising law, whereas discretionary spending is controlled by appropriations law. Direct spending on the basis of authorising legislation may or may not require subsequent annual appropriations (if not, the authorising legislation provides a permanent appropriation itself), but if it does, these annual appropriations do not materially control expenditures. Currently 60% of public expenditure consists of direct spending (not including interest). Authorising legislation containing entitlements mandates government to provide cash benefits or services and provides legal claims vis-à-vis the government to eligible persons.

In view of the increasing deficit in the early 1980s, Congress established the Balanced Budget and Emergency Deficit Control Act, commonly referred to as the Gramm-Rudman-Hollings (GRH) Act in 1985. This law aimed at a gradual reduction of the deficit in the period 1986-1990 and a balanced budget in 1991. The law was revised in 1987 with the date of budget balance postponed to 1993. The GRH Act set ceilings on the deficit in each of these years and provided for the cancellation of budgetary resources through a procedure called sequestration if the projected deficit exceeded the ceilings. This procedure authorised the President, on the advice of the OMB,¹ to order the withholding of budgetary resources to all programmes not exempted from the sequestration procedure. The GRH Act was not very effective, mainly because the President was not inclined to sequester large amounts in cases where excessive deficits did not stem from overspending in the discretionary area nor from legislative action in the mandatory or revenue area, but rather from revenue shortfalls or overspending in the mandatory area under current law. Moreover, the GRH Act enabled the President to avoid sequestration because it required him to act upon the *projected* deficit at the beginning of the fiscal year, rather than the *realised* budget at the end of the year. This gave rise to all sorts of optimistic assumptions about revenues and direct spending under existing law in order to avoid sequestration. Moreover, the focus on the budget year gave an incentive for policies that would reduce the deficit in that year, even at the expense of higher deficits later (such as asset sales). In fact, the actual deficit exceeded the GRH ceilings in all years until 1991 by substantial margins.

In 1990, Congress enacted a new approach to budgetary control in the form of the Budget Enforcement Act (BEA, technically a revision of the GRH Act). This law focused on controlling the budgetary cost of new legislation rather than the deficit. For that purpose the BEA established different regimes for the discretionary and mandatory/revenue parts of the budget. As far as discretionary spending is concerned, the BEA originally set dollar limits for budget authority and outlays for each fiscal year through 1995. The BEA was revised and extended twice in 1993 and 1997, the last fiscal year covered in the latest extension being 2002. As far as the mandatory/revenue part of the budget is concerned, the BEA is based on the Pay-As-You-Go (PAYGO) principle. This principle requires that any increase in mandatory spending or decrease in tax revenue stemming from changes in legislation must be fully offset so that the deficit is not increased. For that purpose, the budgetary effects of changes in legislation are recorded on a scoreboard that covers a five-year period starting with the upcoming budget year. Unlike the GRH Act, however, the BEA does not require that any offsetting action be taken if overspending or revenue shortfall in the PAYGO part of the budget is the consequence of external conditions such as a loss of revenues resulting from an economic downturn or an increase of unemployment. The BEA maintains sequestration as a sanction if discretionary

spending caps or compensation rules for legislated PAYGO changes are violated. Finally, the BEA also contains targets for the deficit, but these are adjustable in the annual budget and need not give rise to sequestration.

The BEA was fairly effective until 1998.² Sequestration had occurred only twice (both in the first year of the act), but it seems to have had sufficient deterrent effect that the caps were largely maintained and the PAYGO requirement largely upheld. The effectiveness of the BEA started to erode as surpluses started to emerge, beginning in 1998.³ From 1999 to 2002, annual appropriations for discretionary spending exceeded the caps set in 1997 by large amounts, without triggering sequestration. Similarly, new laws affecting increases in mandatory spending and revenues were enacted without the required offsets and without inducing sequestrations.⁴ The methods used to avoid sequestration were varied. One method was the emergency clause of the BEA, which allowed temporary overspending. While it was used for true emergencies, such as hurricanes and other natural disasters, it is widely felt that the interpretation of this clause was overstretched in later years. For example, the national census, which has been a constitutional requirement since 1789, was funded under this pretext. Whereas emergency spending remained mainly under USD 10 billion in each fiscal year from 1991 to 1998 (with the exception of 1994 when it amounted to circa USD 14 billion), it was above USD 25 billion in each of the years from 1999 to 2002. More importantly, appropriations acts for 2001 and 2002 raised the caps by large amounts. Other problematic practices, such as expanding advance appropriations (beyond the upcoming budget year), were also used. Legislation was used to remove positive balances from the PAYGO scoreboard and thus make room for President Bush's first tax relief package without offsetting measures. Taken altogether, these factors made the BEA ineffective in the last years of its existence. In September 2002, the BEA formally expired and was not further extended.

The BEA, as well as its predecessor the GRH Act, stemmed from congressional initiative, but had statutory status and thus imposed constraints on the presidential as well as the congressional budget process. Indeed, in all the years that it was in force, the presidential budget submitted to Congress stayed within these constraints. In this respect, the BEA functioned more or less as a strict multi-year expenditure framework similar to what some other OECD member countries have been using.

1.3. The annual budget process

The annual budget process starts almost 1½ years prior to the beginning of the fiscal year when the Office of Management and Budget (OMB) issues a letter to departments in April,⁵ known as *planning guidance*. This letter specifies the general funding levels for each department. In some years, the level of funding will be the out-year projections included in the previous

budget; in other years, it may be updated. The April guidance also notes the specific management and programmatic issues that departments must address in their budget submissions. The letter also specifies the timetable and the specific information that has to be included in the submission. Spending departments will already be working internally on their budget requests at this time. Usually, the budget unit within each department sends internal guidance to all divisions/offices in February, which is more than 1½ years before the start of the fiscal year. This internal guidance contains general indications about the priorities of the secretary. In response to this, the offices work out their detailed proposals.

In June/July, OMB conducts an internal review exercise focused on management and programmatic priorities in each department. This is known as the Spring Review it identifies major issues for the upcoming budget and policy options for the fall review, and plans major analysis for future decisions. In recent years the Spring Review has centred on programme performance and programme management issues, and this has increasingly been an important step in the move towards a performance-oriented budget. The Director of OMB confers with each of the four Resource Management Offices (RMO) of OMB to assess the current situation and prospects in each department. These Resource Management Offices are organised along departmental lines: each RMO is divided into divisions and branches and is responsible for a small number of departments. This is similar to the role of the examining divisions of budget offices in other OECD member countries.

Box 1. Office of Management and Budget

The Office of Management and Budget is the central budget office in the United States. It is a part of the Executive Office of the President within the White House. The Director of OMB is a ministerial level position and a member of the President's Cabinet. There are about 500 employees at OMB. In addition to its core budgeting functions, OMB also has a key role to play in overseeing the co-ordination and management of the entire executive branch for the President. This comes from the fact that OMB is "hard-wired" into all the different ministries and agencies giving it a unique platform to oversee other bodies. Also, it is the central clearing house for all communication between the executive branch and Congress. All legislation and other submissions to Congress must be cleared by OMB. It is a very powerful body.

In July, OMB distributes the annual update to the circular A-11 which gives the detailed directions to agencies on how to prepare and submit the budget to OMB for review. The major change to A-11 in recent years has been the incorporation of agency generated Government Performance and Results

Act (GPRA) performance plans into the budget submission. For the first time, OMB issued instructions last year on integrating performance plans into the budget. In the past, GPRA performance plans were reviewed by OMB in a cursory way, principally because OMB had only a modest ability to make changes in the plans. With the integration of performance into the budget, the agency plans are becoming increasingly important to the executive budget formulation process, and OMB has carved out a new powerful role in reviewing and even shaping the agency plans. Despite the requirements to integrate performance, the United States has had a difficult time fully integrating performance into the budget due to the lack of meaningful data, measures that have changed over time, little in the way of cost-of-service data, and difficulties in creating inter- and intra-departmental goals. For the FY2003 budget, OMB created a new Program Assessment Rating Tool (PART) that will be used to help make budget decisions in the future. This tool and other performance budgeting initiatives will be reviewed in Section 3.

In each department, the secretary convenes budget meetings with division/office heads during the summer. For instance, in the Department of Health and Human Services (HHS), one of the largest departments in terms of budget and staff employed, the secretary holds separate meetings with each of the division heads in the department. The meetings are attended by staff from the budget unit of the department in an advisory role. These meetings focus on the discretionary budget of the department. Mandatory spending is only addressed in the late summer.

An important problem for the departments is how to determine their request for year t , if they do not yet know how Congress will decide on the budget for year $t-1$ (which during the summer is being considered by Congress). For the HHS department, for instance, Congress has – with one exception – increased the budget each year since 1981 regardless of the President's budget proposal. If a department adheres to the numbers provided in the April guidance of OMB, there is a chance that it will ask for a budget for year t that is lower than the one Congress is going to approve for year $t-1$. Departments therefore pay more attention in this stage to what Congress is likely to do for year $t-1$ than to the OMB guidance for year t .

Much also depends on the style of the President. If the President is prepared to be involved, like the previous President was, departments tend to take into account what the President is willing to concede in personal discussions with secretaries in response to an eventual appeal. If the style of the President is to delegate budgetary decisions, like that of the current President, it is more risky to deviate (widely) from OMB targets. OMB could penalise departments for such deviation by giving even less than it would have done otherwise, and an appeal has little chance of success anyhow or can even result in a decrease of the original allocation. Of course, the secretaries have an important say in this stage. If they

wish, they can attempt to reallocate resources within their budget. However, they know that Congress is the ultimate arbiter. Each shift of resources between accounts will have to be approved by both houses of Congress. It is in this field of forces between OMB, the President, Congress and the divisions under their own responsibility that secretaries have to make up their minds about the request to be sent to OMB in September.

Box 2. **Economic assumptions**

Determining the macroeconomic assumptions to be used in the President's budget is a shared responsibility of the Council of Economic Advisers, which is a unit within the Executive Office of the President, the Treasury Department, and OMB. Forecasts are partially based on econometric modelling and partially on informed judgement. This unit closely follows forecasts from market institutions (for instance the "Blue Chip" forecasts representing the market sector consensus).

There are no systemic means to ensure prudence in the forecasts. In fact, tax revenues have been significantly lower than projected in recent years in comparison with the late 1990s when tax revenues were substantially higher than forecast.

A difficult problem arises, however, in how to handle new presidential initiatives – for example tax reductions. The administration wants to take account of the beneficial (dynamic) effects that the President's economic policy may have on the budget, while at the same time it does not want to deviate from the market consensus.

In October and November, the Director of OMB convenes a round of department-specific budget hearings. This is known as the Fall Review. These hearings focus on analyses and recommendations prepared by OMB staff and result in funding and other policy decisions about specific programmes. These hearings are open only to OMB staff and White House representatives. The hearings cover the discretionary budget as well as changes in authorising legislation. The departments may or may not be the source of such proposals. On the basis of this review and other considerations, the Director of OMB will make the final decision about the departmental totals for discretionary spending and the totals of legislated changes in the PAYGO part of the budget. The Director of OMB formally briefs and recommends a complete set of budget proposals to the President and senior advisors on proposed budget policies. Finally, these totals are usually sent to departments the Monday after the Thanksgiving Day holidays (fourth Thursday in November) for departments to make any comments. This process is known as *pass back*.

A secretary can appeal the decisions of OMB regarding their totals. Appeals are first made to OMB itself, and most are normally settled at that level. The institutional arrangements for further appeals differ between administrations and sometimes from one year to another. In recent years, appeals have gone to a Budget Review Board, which includes the Vice President, the White House Chief of Staff, the Director of OMB, and one or two senior White House officials. The current board has made it known that it reserves the right to either increase or lower the budgets of departments that appeal to it. This has very much discouraged appeals to the Budget Review Board. Finally, decisions may be appealed to the President who has the final decision-making authority. This is discouraged in the current administration and there were no appeals to the President last year. The Director of OMB is therefore in a very strong position.

Next, departments prepare their final requests in accordance with the totals decided by OMB (the President). OMB will put the requests together, add various whole-of-government overviews, explanatory material as well as material on the progress of the President's Management Agenda (see below) and submit the budget to Congress in February. This gives Congress six months to enact the required legislation before the start of the fiscal year on 1 October. The departments will submit detailed budget justifications to Congress shortly after the Presidential budget has been sent (see Section 2).

Box 3. Budget formulation timetable

April	<i>April guidance.</i> OMB issues letter to departments specifying general funding levels and highlights major management and programme issues.
June/July	<i>Spring Review.</i> OMB issues detailed guidance (Circular A-11) on the information that agencies should include in their budget submissions.
July/September	Departments prepare and submit budget requests to OMB.
October/November	<i>Fall Review.</i> OMB decisions on budget totals given to departments.
November/December	Appeals process. Final decisions by President.
December/January	OMB and departments finalise budget documentation.
Before First Tuesday of February	President's budget transmitted to Congress.

1.4. Conclusions

Since the expiration of the BEA, annual budget preparation in the United States Government is no longer constrained by a strict multi-year

expenditure framework. This holds for the presidential as well as for the congressional budget process. In view of the advantages of such a framework for stabilisation, programme management and budgetary control, it is recommended that a new strict expenditure framework be put in place starting in 2004. The President's budget for 2004 contains such a proposal.

The BEA was not "surplus-resistant". Closing loopholes concerning emergency spending and advance appropriations may help, but may not be sufficient for the success of a revived the BEA. It is essential that the administration have the political will to enforce its provisions, at least as far as the presidential budget is concerned. In principle, the institutional structure of the presidential budget process, with its "strong" OMB director, is suitable to the performance of this task. Coincidence of medium-term frameworks with presidential terms would help in this respect. Thus it is prudent that the proposal in the President's budget for 2004 to revive the BEA covers only a two-year period (2004-2005) and that it does not attempt to constrain the revision of budgetary priorities at the beginning of a new administration. On the other hand it would be recommendable to move to four-year medium-term frameworks starting in 2006.

The United States is in the early stages of implementing a performance budgeting system. Major changes and refinements have been and will be made to better integrate performance data into the budget decision-making process. OMB has crafted strong internal processes to review agency performance plans, evaluate programme performance and use programme performance reports in the budget. The United States will need more time to develop stable and verifiable programme measures, to align account structure with outputs and outcomes, and to develop other data for effective programme accountability and performance reports.

2. The role of Congress

Important note: As of the writing of this report and as noted in Section 1, the budget process rules enacted by the Budget Enforcement Act (BEA) expired in September 2002 and had not been reinstated or revised. Based on conversations with United States budget officials, for the purposes of this review the OECD assumes that the basic structure of caps on annual spending and required offsets for new spending as well as special congressional procedures for the budget will continue. However, the report will also point out how the expiration affects congressional action. There are several proposals for revisions that will be discussed.

2.1. Introduction

This section reviews the legislative budget process in the United States looking at both the formal and informal rules in which Congress operates as well as the political context. The section will review developments over the last decade in the budget process and the current situation, which is in flux, and will make several observations and suggestions regarding the process.

This section finds that relative to other legislative bodies in the world, the United States Congress is the most powerful due to unique features of the United States Constitution and customs. Because of its constitutional position, weak political party discipline and other features arising from custom and convention, the United States Congress has a much more extensive role in the budget process. That extensive role is, on one hand, an impediment to making better and more effective decisions on budgetary resources and, on the other

Box 4. The United States Congress

The United States Congress is a bicameral legislature composed of a House of Representatives (lower house) and a Senate (upper house.) With the exception of a few technical points, each chamber enjoys equal powers. Four hundred thirty-five Representatives are chosen for terms of two years, while 100 Senators are elected for six years with one-third of Senators elected every two years. Elections are generally the subject of state election law; most are elected in a “first-past-the-post” system where the person who receives the most votes wins the election. (One state requires a majority vote and presidential elections are slightly different.) Elections are direct. Citizens vote for individuals and not parties. There are two major parties – the Republicans and the Democrats – that generally receive over 95% of total votes. As of 2002, the Republicans have small majorities in both chambers and the current President is Republican.

There are 16 standing committees in the Senate as well as other special or *ad hoc* committees. In the House there are 19 standing committees as well as other special committees. Since there is a disparity in the number of committees, mandates do not overlap except in the case of the appropriations committees. There are several joint committees, including the Joint Committee on Taxation that aids the main tax writing committees and makes the official estimates of tax legislation changes for the Congress. Each chamber has three main committees that play a major role in the budget process: a Budget Committee, an Appropriations Committee and a Tax Writing Committee (known as the Finance Committee in the Senate and the Ways and Means Committee in the House). Appropriations committees are split into 13 sub-committees that each shepherd one appropriations bill through Congress.

hand, a strength of the system. Recommending sweeping changes to the United States Congress is neither practical nor desirable, but making better use of existing information, maintaining a focus on fiscal discipline and enacting small modifications to existing laws could produce better fiscal outcomes and more efficient government. While some of these changes are within the control of Congress itself, many of the recommendations involve better information generated by the executive branch.

2.2. Congress and the budget: The constitutional and statutory basis

To understand the United States Congress and its role in the budget process, one must understand the unique constitutional position the legislature enjoys. First Congress is an equal but separate part of the government structure, which means that the Constitution set up a fundamental tension between the legislature, the executive and the judiciary. To this end, all legislation must originate in Congress⁶ and, according to the Constitution, “No Money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law”. It is this “power of the purse” that drives the congressional involvement in the budget process. In addition, the Constitution allows each chamber of the legislature to develop its own rules governing procedures. This ability to shape rules is extremely important for understanding constraints on the budget process and will be dealt with in detail later. An appropriations bill is treated as a regular legislative bill and is sent to the President for approval or veto. Congress can impose its will on the President by “overriding the veto” with a two-thirds vote of each chamber. The Constitution is not very specific, though, regarding procedures, so much of the present budget process grew out of custom and internal rules.

While there has always been a congressional budget process, prior to 1974 it was a relatively unco-ordinated affair of authorisation, appropriation and taxation. Most of the congressional action on co-ordinating budget process was limited to creating a budget process in the executive for, first, the budget execution, and then in later years the presentation of the President’s budget. Since the process was unco-ordinated, individual appropriations committees were free to spend whatever they deemed necessary. This was notable because most of the budget was decided on an annual basis, and direct or mandatory spending was a relatively small part of total spending.

In 1974, as the size and scope of government grew more complex, and following a series of budgetary disputes with the President, Congress passed the Congressional Budget and Impoundment Control Act of 1974. This Act provided for the first time an internal congressional budget process and created the two main instruments for enforcing compliance with the internal procedures: the House and Senate Budget Committees and the Congressional Budget Office (CBO). The Budget Committees draw up an annual overall

budget resolution – an internal congressional agreement on spending and receipts – and then with the help of CBO “scorekeeping”, enforce the aggregate levels agreed to at the beginning of the year.

2.3. The congressional budget process

Congress typically is in session from January to October or November depending on the year. In fact in some years – and principally due to budget disagreements – Congress has been in session for the entire year. The congressional budget process formally begins on the first Tuesday in February with the submission of the President’s budget. Since the fiscal year starts on 1 October, given the schedule of Congress, the budget process runs through virtually the entire session.

It is very important to stress that – unlike in most other countries – the President’s budget is merely a recommendation and only serves as a benchmark for subsequent congressional action. While the President’s budget is famously referred to as “dead on arrival” regardless of the balance of power between the parties, the bulk of spending is set either in entitlement spending or kept near the previous year’s level. Congressional debate will generally focus on relatively small amounts of money resulting from congressional interest and on new policy recommendations. In a large and complex budget such as that of the United States, the President still holds a great deal of power to interpret congressional instructions and appropriations. However, the President is highly constrained in moving resources among appropriations, constrained in spending less than appropriated, and legally prohibited from spending more than appropriated. Congress can impose its will both formally and informally and the administration knows it must comply because if the directives are ignored Congress will further constrain the President and make the directives much more explicit. Again, in practice, this congressional power affects a small amount of funding, but compared to other countries the power of Congress is very strong.

Shortly after the President’s budget submission (although the time varies), individual departments and agencies will submit highly detailed “Congressional Justifications” or CJs that are far more important to the congressional process. The CJs contain programme data on spending from the previous year and plans for the upcoming year. The CJ submission also contains GPRA mandated performance plans and reports including historical performance data. The presentation of the CJs is not uniform and is tailored to the specific interest of the individual appropriations subcommittee.

The first major event occurs when CBO submits to Congress a re-estimation of the President’s budget using CBO’s economic and technical assumptions. These assumptions will also be used to score or measure congressional action

on the budget during the year. CBO's re-estimation is generally different from the President's budget estimation. While in recent years technical assumptions on spending between CBO and OMB are getting closer, economic assumptions are almost always different. There are several reasons for the difference, including the fact that CBO economic assumptions are drawn up at least two months after the President's budget and have the benefit of being more up-to-date. The assumptions are also different because CBO and OMB use different models and, more importantly, OMB assumes the dynamic effects of enactment of the President's programme. CBO by contrast assumes no effect of the President's budget on the economy. In fact, CBO's economic assumptions and scoring estimates for legislation assume no macroeconomic effect from congressional action as well. This year, however, CBO released a dynamic report of the President's budget for informational purposes only. Dynamic scoring has proven to be a highly contentious issue in the political debate, since certain politicians argue that cutting taxes stimulates the economy so much as to have a very large feedback on revenue. While there is no debate that the effect on receipts is non-zero, the size of the effect is contentious. It is possible, but not likely, that dynamic scoring requirements will be added to re-authorisation of budget rules.

Box 5. **Congressional budget timeline**

Early February	President submits the executive budget recommendation.
March and April	Budget Committees hold hearings and develop the Congressional Budget Resolution, Standing Committees present views and estimates.
15 April	Congress passes Concurrent Budget Resolution.
Summer	Congress works on reconciliation legislation if required and passes 13 appropriations bills.
30 September	End of fiscal year; all appropriations bills should be passed.
1 October	Fiscal year begins; continuing resolutions for appropriations bills that were not passed.

Through March and April, the House and the Senate craft and pass separate budget resolutions. By 15 April (but often later in the year) Congress passes a Concurrent Budget Resolution. Upon receiving the President's budget, the Budget Committees review the document, solicit the "views and estimates" of the authorising committees, hold hearings and start drafting the Congressional Budget Resolution. A budget resolution is not law – in other words it is not sent to the President for his approval. The resolution is simply

a formal and binding agreement between the two chambers on total spending, receipts and other budget aggregates as well as a notional breakout of spending between functions of the budget. It can be a detailed agreement with directives and suggestions for subsequent action or, as is usually the case, it can be simply aggregate funding levels. The resolution sets forth total levels of discretionary spending (the “BEA caps”) as well as “reconciliation” instructions for committees with mandatory spending. Reconciliation instructions are directives to spending committees to save certain amounts of mandatory expenditures or a certain amount of tax changes. While the instructions may assume a specific policy change, it is up to the committee of jurisdiction to craft a policy complying only with the total number and not necessarily with the assumptions behind it. The United States budget process allows for both counter-cyclical spending, since many entitlements rise and fall according to economic conditions, and constrained spending on annual discretionary spending.

Congressional procedures also provide for fast-track consideration of the resolution that allows the Senate in particular to vote within a designated period of time and with limited amendments. These procedures are very important in the United States political context. The Senate generally operates under the rule of unlimited debate. This means that any senator or group of senators can effectively stop a bill from being considered through a procedure known as a filibuster. A super-majority of senators (three-fifths) must approve the closing of debate on any issue. In effect this means that most decisions taken by Congress – because of Senate internal rules – must be supported by not only a majority but by a large political consensus.

As commentators note, the United States system is not a recipe for quick action, because of such characteristics as the need for super-majorities, other procedural hurdles, the need to reconcile differences between the two chambers, the implications of presidential approval and disapproval, and – when viewed in comparison with other countries – weak political party discipline. The budget process, then, circumvents these procedural impediments by providing limited debate and waiver of the three-fifths rule. Note that the three-fifths rule for closure of debate is waived only for consideration of the Budget Resolution and for the reconciliation process (which will be described later). While debate is limited, the congressional budget procedures create other three-fifths points of order. These super-majority rules are very important for understanding the budget process and will also be explained at length later.

Many countries have gone to a two-stage budget process where the total amount of spending is approved in the Spring and detailed decisions are taken later. The OECD has found that a two-stage budget is desirable in that it impedes excessive spending. In the United States context, budget resolutions

are effectively the first stage of the process committing Congress to aggregate spending amounts for discretionary (or annual appropriations) spending and to a set of policies on mandatory spending. While discretionary totals are set with a hard cap, the mandatory or entitlement spending levels (benefits and payments assigned in law) in the resolution only correspond to changes from a baseline – if agreed to – and there is no fixed cap on mandatory spending. Since changes to entitlements are politically difficult, required changes set forth in the budget resolution (apart from minor changes) are relatively rare.

Box 6. **Points of order**

To help Congress legislate within the budgetary constraints set forth in the budget resolution, the Congressional Budget Act provides for a number of points of order. Congressional Budget Act points of order are a parliamentary device by which any member of Congress can object to an amendment or a piece of legislation on the grounds that it is not within the limits set out in the budget resolution. Many of the points of order, including the most important, can only be waived by super-majority approval (three-fifths). There are a number of points of order that require majority approval and are designed to make Congress aware of its action. One good example of a majority point of order is on the prohibition of placing an unfunded mandate on lower levels of government.

The main prohibitions (and three-fifths points of order) are:

- A prohibition against consideration of legislation that provides budget authority, or outlays, in excess of a committee's allocation. This point of order is often used to enforce the spending limits applicable to each of the 13 annual appropriations bills.
- A prohibition against consideration of legislation that would cause the total level of budget authority or outlays to be exceeded or the appropriate level of revenues to be reduced below that which is set forth in the budget resolution. These levels are often referred to as the aggregates.

2.4. Congressional resources

To aid Congress in its role, the resources available to it are unprecedented among OECD member countries. First, Congress can request directly of the executive branch any data or reports that it deems necessary. Second, there are three main independent congressional agencies – the Congressional Budget Office (CBO), the General Accounting Office (GAO) and the Congressional Research Service (CRS) – that Congress can rely on for

independent analysis of government reports or for original research and analysis. CBO is the most important congressional institution in the budget process. It provides independent economic assumptions and independent scoring estimates to make the budget enforcement system work. CBO is also a source of programme knowledge that helps shape legislation as an indirect by-product of scoring estimates or informal discussions between CBO staff and congressional staff. While the director of CBO is a political choice, the independence of the institution is an essential asset and thus cherished by the staff.

The GAO is also an important source of information. The focus of the GAO is qualitatively different from other audit and accounting institutions when seen from an international perspective. Indeed the attention to the accounting side is quite limited; most of the work by the GAO focuses on programme effectiveness reports and special investigations requested by Congress. GAO reports are widely used to craft new legislation or changes to existing law. The CRS provides Congress with in-depth programme analysis as well as programme experts who help with legislation. In addition to these independent resources, Congress draws upon large professional committee staffs chosen by the chairs and ranking members (the opposition) of committees, as well as personal staff for each member of Congress.

Finally, Congress created the departmental Inspector Generals (IGs) which are internal control officials and their staff. The IGs have a responsibility to report both to the secretary of the department (ministry) and to Congress on programme and management problems and recommendations to correct them. The IGs duties are carried out through a nationwide network of audits, investigations, inspections and other mission-related functions.

2.5. Discretionary appropriations process

In the Budget Resolution, Congress sets out aggregate levels of funding for annually determined appropriations. Prior to expiration of the BEA, these aggregate levels – or caps – were set out in law and were set several years in advance. Without the BEA, the aggregate levels set forth in any budget resolution are still binding but there is no enforcement mechanism except those points of order that pertain to the budget resolution itself. The BEA enforcement mechanism provided for super-majority points of order as well as an administrative sequestration process to help Congress hold to the overall limit. The BEA provides that if OMB estimates that an appropriations bill will cause the overall level of discretionary spending to exceed the limits set forth in law, then the President must issue a sequester order reducing all non-exempt discretionary accounts by a uniform percentage.

It is important that the scoring estimate of OMB – a presidential office – determine the amount of potential sequestration. Congressional procedure dictates that CBO scoring estimates can only be considered during congressional debate and action. Thus, if there is a technical estimation difference between CBO and OMB, CBO estimates may allow Congress to complete its procedures with no points of order only to find that OMB estimates that Congress exceeded the statutory levels, thus triggering a sequester. The opposite could occur: that CBO scoring was more strict and Congress could have appropriated more. This discrepancy is built into the system resulting from a constitutional ruling by the Supreme Court that prohibits agencies within the legislative branch from administratively cutting spending of the executive branch. In practice, scoring differences are not a surprise as both CBO and OMB keep a continuous total on congressional action. The system also works because of the high degree of professionalism in both OMB and CBO and a number of formal and informal links between the two organisations, including wide agreement on fundamental scoring conventions for action on the budget.

The Budget Resolution sets forth only aggregate discretionary amounts as binding, but also provides illustrative functional breakouts. Much of the debate about the resolution is how the illustrative breakouts should change. After the resolution has been adopted, the Appropriations Committee as a whole meets to decide on the binding constraints split between the sub-committees. The splits voted on by the Appropriations Committee can bear little relation to the totals suggested in the budget resolution for the marginal changes that are the focus of congressional debate. Thus the debate and amendments associated with passage of the budget resolution tend to be more symbolic and address a wider political issue. In fact the bulk of amendments are non-binding recommendations that do not actually change spending amounts.

There are 13 sub-committees on each of the House and Senate Appropriations Committees. Each sub-committee is responsible for one appropriations bill falling under its mandate. Unlike other committees, for efficiency purposes the committee and sub-committee mandates are identical between the House and Senate. This is principally because action on spending bills occurs annually and in practice is required. The appropriations bills are crafted, passed and agreed with the President, as ordinary legislation. There are only a few small technical rules and processes that differ from regular legislation. Since action is required annually, the appropriations process has developed into the main congressional vehicle for making congressional policy.

The appropriations process is arguably the most important event of the year, and a seat on the Appropriations Committee is one of the most coveted

committee assignments in Congress.⁷ The reason a place on the committee is so coveted is that congressional control is extremely detailed and extensive, far and away more detailed than any other country. While the international trend is to group larger amounts of expenditures into single appropriations items, the United States maintains an appropriations system that exerts extremely detailed control over spending for individual programmes.

An appropriations bill sets out not just levels of funding down to individual programme level but also often dictates specific management decisions. These controls range from earmarking of appropriations for specific purposes to making programming recommendations in supporting documents. These controls are large inefficiencies built into the system. Earmarking of expenditures involves relatively small amounts of money, but the level of attention devoted takes up an outsized amount of time. While supporting documents – called report language – do not carry statutory authority, the executive branch knows not to contradict them.

2.6. Reconciliation – Mandatory spending

The budget process laws set out a special procedure – known as reconciliation – to change tax and mandatory spending provisions on an expedited basis. The budget resolution could direct a spending committee to decrease (or increase) a certain level of expenditure. The spending committee is then obliged to report legislation to the Budget Committee changing benefits and formulas to meet these targets. As is the case with discretionary spending, the budget resolution contains implicit or explicit assumptions on the policies behind the reconciliation instructions. However, the committee of jurisdiction may choose whatever combination of policies it wishes to meet the instruction. The Budget Committee has the ability to craft the legislation if the spending committee refuses, although this is really just a threat.

The reconciliation bill, as reported by the Budget Committees, has a special status. In the House, the bill typically has special rules that focus the terms of the debate. In the Senate, the Budget Act itself limits debate on the bill, and other provisions limit the type of amendments and, more importantly, content of the bill. The Senate rules conferring a special status on reconciliation bills are very important since they circumvent the Senate's principle of unlimited debate, filibuster and the rights of the minority. The practical effect is that the Senate imposes its internal rules on the entire congressional budgetary process.

Action on mandatory spending programmes or tax code changes both inside and outside of the reconciliation process are subject to “pay-as-you-go” or PAYGO rules. The rules state that any new entitlement spending or tax cut must contain offsets to the new spending or cut. These offsets can be either

cuts to other entitlement spending or increases in taxes. Politically, the debate has only focused on other spending cuts and not tax increases. The enforcement mechanism for entitlement spending is similar to the appropriations process where there are super-majority votes required to waive the need for offsets and then administrative sequesters as determined by OMB to bring the spending in line with projections. The offset requirements differ between the House and the Senate, which means that real requirements follow the stricter chamber version. Thus, in the Senate the PAYGO rules require that the spending impact be offset fully in the first year, the cumulative cost of years one through five and the cumulative cost of years five through 10. In other words, the path of new spending and spending cut offsets need not be identical, just total savings must be identical. Like the rules on the content of the reconciliation bill, the Senate PAYGO rules effectively require a 10-year budget window for the entire budget process even though the House rules only require a five-year assessment.

2.7. Budget process breakdown and possible changes

The last several years have been a tumultuous period for budgeting in the United States, as it has been for most other countries. The expenditure caps and PAYGO provisions were crafted in an era with ever increasing deficits and with no thought of returning to surplus. According to many observers the rules worked well initially when there was a political consensus to maintain fiscal discipline. Through the 1990s, the PAYGO restrictions held and the tight caps on discretionary spending were only modestly modified. With the return of a surplus in 1998, the budget process broke down and was allowed to expire completely at the end of 2002.⁸

As the United States economy unexpectedly generated more and more revenues, the political consensus on fiscal restraint broke down and a rigid budget process did not allow the political process to spend more money. Legislators worked around the rules by first exploiting loopholes – notably the allowance for emergency spending – then ignoring the restraints altogether. While the events of 11 September required large amounts of new spending, it was the tight division of political power after the elections that created a political gridlock and spelled the end of the budget process. The fiscal year 2003 budget was the first since the enactment of the 1974 Congressional Budget and Impoundment Control Act to not have a congressional budget resolution laying out the process. This stopped work on tax and funding bills almost altogether, and 2003 appropriations were not passed until five months after the beginning of the fiscal year – and after the introduction of the President's 2004 budget.

While many politicians chafed under the spending restrictions, an interesting aspect of the breakdown was the realisation that the absence of a

congressional procedure was worse, especially as regards discretionary appropriations. Indeed, to have any action at all on the annual discretionary budget, the Appropriations Committees constructed internal spending caps of their own as a way to focus spending decisions. For entitlements, the absence of PAYGO rules did not mean the expansion or creation of new entitlement programmes.

Congress is working again on budget process rules. The political situation has changed and both chambers have Republican majorities, so it is likely that both chambers will pass a budget resolution and new rules for the congressional budget process. As of the writing of this report, there are no firm congressional plans for a new or extended budget process. However the administration, as part of the FY2004 budget, has proposed to essentially extend the BEA for two years with a few major changes. First, the caps would be set at a growth rate of 4% per year. Second, the President proposes that the PAYGO rules only be applied for five years, or in other words, negate the Senate practice of 10-year PAYGO estimates. (To back up this change, the President's budget only sets out five-year spending estimates for display purposes.) Finally, the President would change the PAYGO rules so that offsetting increases in taxes or decreases in spending would only be needed for changes not provided for in the budget resolution.

The detailed nature of appropriations coupled with tight aggregate controls have bogged down the process so that action on most appropriations bills is not completed by the end of the year. Prior to enactment of the BEA, the system worked because extra funds were available to meet the local political needs of politicians who were expected to direct federal funding to their constituents. With the enactment of caps, previous year spending levels were locked in and new funds were not readily available to meet new needs.

2.8. Performance budgeting

Section 3 will lay out in more detail the performance budgeting system in the United States. Despite being a congressional initiative, the GPRA has failed to make performance a significant factor in the budget decision-making, and an indication of this is the limited use by Congress of the performance information it receives. Indeed, as will be described, there was very little that did change in statute from the standpoint of congressional operations, apart from new reporting requirements. Due to the powerful role Congress plays in the budget process, any substantive budget process change that does not change the congressional process is likely to have a limited impact. While it may be too soon to judge the success or failure of GPRA, the long history of failure of budget reforms driven by the executive branch is proof that Congress must take an active role in process change. Simply requiring more information has not pushed Congress to change its internal processes.

First, Congress sets the rules for budget presentation. There are two submissions from the administration: the President's budget and the far more detailed departmental budgets. The reality is that the departmental budget submissions – Congressional Justifications (CJs) – are key documents, particularly for the annual discretionary budget. The CJs are informal documents that are crafted to the desire of specific appropriations sub-committees. Several Cabinet departments and independent agencies, including Transportation, Interior, Labor, NASA and Veterans Affairs, reconfigured their CJs to align performance with budgetary resources. Veterans Affairs, Justice and NASA have taken the next step and reconfigured their account structures to integrate performance and budget. Since this is a new development, it is unclear what this change will do for their appropriations bills. The administration is specifying that agencies should integrate their annual performance plans into their CJs for 2005.

Accompanying the CJ, the departments submit their GPRA plan and reports. Congressional staff uniformly said that because the reports were not relevant to their process, they did not review or use the data. Some staffers, particularly those in the opposition, viewed and/or assumed that the reports were politically motivated and as such were simply presidential propaganda. More importantly though, Congress has no stake in the GPRA reports. While they are supposed to be consulted on the development of the goals, Congress has no formal power to change goals.

The PART review is new to the FY2004 budget process, so it is too early to determine whether the analysis will be used and used effectively. Given that it is a new process, it would probably take several years for Congress to become comfortable with the reports and use the data generated. However, one important flaw remains in place: the reviews come solely from the administration and are seen to be less than objective, particularly when the President wants to reallocate funds to his priorities. There is also a long history of Congress using the President's recommendations to cut funding, as a pretext for reallocating funds to congressional political needs in all impunity. So much so that Presidents may be wary of suggesting major reductions or major reallocations. Indeed, after the conclusion of the PART exercise, there were few terminations recommended even in programmes deemed ineffective.

It is doubtful that the United States will ever move to a true results-based budget process. It implies Congress giving up too much certain *ex ante* power for uncertain results that may not be apparent for years. Since the only tool legislatures have is the legislative process, this is naturally where they spend their oversight time. This is especially true in the United States, since it would imply a huge shift from oversight emphasizing conformity with legislation to oversight emphasizing performance. It would be a large shift in power to the

executive branch as it would require greater managerial discretion over programme funds. Even to come close to such a situation, there would have to be an unprecedented amount of time spent on reauthorising programmes to reflect new programme management, working through a legislative process that is slow and inefficient by design. There has been consideration of moving to a biennial budget that would increase the amount of time Congress could spend overseeing programme performance and execution, but there is no consensus to make the change at this time.

Congress can change its rules and informal procedures to incorporate the consideration of performance in the political decision-making on programme and funding. This would principally entail a better linkage between the Appropriations Committees and the sectoral standing committee. The real challenge is to get better, more relevant, longer time-series of data and more independently verifiable information from the administration. However, in something of a Catch-22, the executive branch would have to have signals that Congress is serious about the process so that the executive branch takes the exercise seriously.

2.9. Conclusions

Despite the size, complexity and built-in inefficiencies of the budget and the budget process, the hallmark of the system is the transparency surrounding the process and the professionalism of the actors. There are virtually no restrictions on formal and informal contacts between the Congress and the administration. Even career civil servants are part of the process and can formally testify in front of Congress as well as offer informal input. There are also no restrictions on where Congress can get its information, and indeed the United States system is characterised by a large and active civil society. Congress and its agencies have at their disposal access to virtually any data or information generated by the government (in fact, because of Freedom of Information Act laws, civil society has access to government information as well). Congress can also require that the government report on anything Congress deems necessary, and generally the reports are accurate and of high quality. Any change to modernise the budget process should rely on the strengths of independent advice and analysis and the transparency of the process. The real question is whether too much data or the right data are requested.

Fiscal rules are needed to make the Congress budget work – the breakdown in the process proves the need for rules. The United States has returned to an era requiring fiscal consolidation, and the BEA worked reasonably well for a decade in constraining expenditures while the political consensus was to maintain fiscal discipline. Caps on discretionary spending and super-majority points of order are familiar, and the BEA could be revised

to foresee procedures when a surplus is generated so that the process is more flexible.

The exception for emergencies exposed a large loophole in the discretionary spending caps. A tighter definition of emergency exemption and a super-majority point of order to waive the Budget Act could be considered. Congress could even explore giving CBO or the President authority to decide whether the spending fits the definition of an emergency situation which would trigger waiving the Budget Act.

As previous studies by the OECD and others have indicated, the ageing population of the United States will severely impact finances albeit to a less extent than the average OECD member country. The leading edge of the baby boom will affect the fiscal picture starting in 2008. While it is true that estimating the exact fiscal position 10 years down the road is uncertain, there is a consensus that the ageing problem is real. Thus, a continuation of the 10-year point of order that effectively requires Congress to consider the impact of legislation well into the era of the retiring baby boom is warranted.

Instead of forcing better reallocation decisions, the caps on spending seemed to lock in historical spending patterns. If the United States is to reinstate the caps on spending, expenditures could become more inefficient. Better performance and evaluation information like that generated in the PART exercise could help shift money from poorly performing programmes to more effective programmes. To achieve this there needs to be more confidence in the accuracy of the data and evaluations, and a new audit and control process is needed. This effort to get better performance information should start with Congress, and more specifically the Appropriations Committees making fundamental changes in presentation of the President's budget and the Congressional Justifications to better align resources with performance data.

While the executive branch has made great strides in generating performance information, GPRA has not lived up to the rhetoric associated with its passage, and Congress has failed to make performance a significant factor in the budget decision-making. An indication of this is the limited use by Congress of the performance information it is given. There is a difference between using performance information in the decision-making process and the more sweeping reform of budgeting on the basis of outcomes and results and holding the executive to account for its performance. It is more likely that Congress will use performance information than it will take the next step of setting priorities and giving the executive flexibility to achieve those goals. As Congress reauthorises major statutes⁹ they should also keep in mind performance and possibilities for managerial discretion as well as changes in the accountability process. Also since other levels of government operate so

many of the programmes, special attention should be given to programme goals and accountability arrangements between lower levels of government and the federal government.

3. Performance budgeting

3.1. A brief history

The clear trend among OECD member countries is to bring a stronger performance orientation into the delivery of government services. Over three-quarters of OECD member countries now use performance information in the budget process. For most of those countries, the efforts have been limited to generating more performance data and better programmatic evaluations. A few countries have adopted system-wide reforms including, but not limited to, a major reform of how the country constructs and implements its budget. Despite having a decade or more of experience in some countries, it would be fair to say there are no truly mature examples of integrated performance budgeting systems.

The OECD has identified three main elements that constitute a performance budgeting system:

- a definition and quantification of outcomes/outputs for each programme or agency;
- a relaxation of input controls or other managerial flexibilities;
- some link (definite or indefinite) between outcomes/outputs and appropriations.

There is a great deal of diversity in how these elements have been incorporated into system reforms through OECD member countries. There are also different reasons for implementing reforms, and thus the mix of changes differs as well. Indeed, to incorporate all elements of a performance budgeting system requires substantial reforms to management, accountability and control systems. The elements outlined here are quite broad and are not intended to be used as a critique to any system, rather than to be used as a lens through which the OECD can assess where countries are in their reform processes.¹⁰

Performance budgeting has a long, if irregular, history on the budget process in the United States, and previous initiatives regardless of their success have been models for the international community. However, 40 years of initiatives to better manage programmes and improve budgetary decision-making have failed to make a substantial impact on the budget process. The alphabet soup of PPBS, MBO and ZBB¹¹ which began in the 1960s and 1970s all failed to last on a government-wide basis principally because they were presidential initiatives and there was no change in congressional procedure or

in law. Instead, because of the inherent constitutional separation of powers, and regardless of the administration's initiative, Congress continued its highly detailed input control.

While the budget reforms failed to take root, there is a large amount of performance information that is generated by the executive branch (either by congressional requirement or for other reasons) and used by the departments, by OMB and by Congress. This information is generated by programme offices, departmental research offices and other groups like the inspector generals and the GAO as well as outside groups. However, these evaluations are not systematic and have been of uneven quality and structure. It was not until passage in 1993 of the Government Performance and Results Act (GPRA) and support by other public management laws passed during the early 1990s that the United States had a comprehensive performance-based management system agreed to by Congress. The big difference between GPRA and previous reforms is that it was codified in law.

3.2. GPRA

GPRA establishes the basic approach to performance-based management for the executive branch. In its essence, the main features of GPRA require federal executive branch departments and agencies to first set strategic department-wide goals, then tactical annual goals, and ultimately to report to Congress on progress. There is no whole-of-government plan – rather individual departments and agencies¹² create their own plans which are submitted with detailed budget documents that follow the distribution of the President's budget.

While OMB reviews the plans at several points in the process, the performance plans are largely agency documents. Many at OMB confess to only a cursory review. However, as executive branch budget formulation focuses more on agency performance (as described in Section 1), the plans and past performance information are both implicit and explicit parts of the budget formulation process. Still, the agency performance plans are generally sent as separate documents but a few have been merged with the basic budget documents. It is the current administration's goal that all annual performance reports and agency Congressional Justifications be merged by FY2005. As was noted before, with the integration of performance into the budget, the agency plans are now crucial to the executive budget formulation process. By administratively requiring the integration of budget and performance in a different way than foreseen in GPRA, OMB has carved out a new powerful role in reviewing, co-ordinating and even shaping the agency plans.

There are several types of goals that must be in the strategic plan and annual plan which are set in law, although the mix of goals is up to individual

agencies. These goals run from general outcome of the department down to specific output goals. The strategic plan typically features outcome goals whereas the annual performance plan should be mainly shorter-term output goals. In developing the plans, agencies have often differentiated between final outcome goals and intermediate outcome goals that represent partial completion of outcome.

Because of the long-term nature of outcome goals, performance data on achieving outcome goals have been limited to date. Most reporting has been on output goals and is generated more for managerial control. Departments are discouraged from choosing large final impact goals. In the first years of GPRA, some agencies tried to set unachievable impact goals. However, most agencies went to the other extreme, preferring instead to choose only goals over which they had direct control. In recent years, goal-setting has become better but is still a problem. One major problem is that while agencies are gaining experience and becoming better at crafting goals, they tend to change the goals frequently. This limits the amount of performance data that can be consistently compared over time. Although GPRA has been a requirement for six fiscal years starting in documents produced in support of FY1999, the sets of performance measures used by agencies continue to evolve and change.

GPRA requires that agencies and departments consult with Congress on the development of strategic plans; however, Congress has no right to formally change or approve a plan. It is chiefly a product by the agencies to guide agency performance and accountability mechanisms. In developing the strategic plan, other interested parties, including sub-national governments and civil society, must be consulted, although how this is done is left to the agencies' discretion.

The rhetoric associated with the passage of GPRA implied a fundamental shift in how the United States budgets. It was supposed to be the culmination of a decade of changes in budgeting and budget implementation that would lead to budgets based on performance and create a new accountability regime. The OMB Director at the time called it "the foundation for much of what we seek to do as we go about the task of reinventing government". The main sponsor of the legislation, Senator Roth, said: "This legislation is a major reform ... instilling a new emphasis on programme effectiveness, service quality and responsiveness to the customers of the government, the American people."

The record on GPRA has been mixed. There have been successes. For the most part, agencies have in good faith complied with the letter of the law. Agencies have started focusing on the products or outputs of their programmes and, more importantly, building a culture of results. Programmes are considered in their entirety, and programme evaluation by internal

research departments is undergoing a revival. Agencies are gaining experience in generating performance data and programme measures and making the data available. OMB believes that by and large agency goals are set in good faith and the targets are not manipulated. While programme achievements used to be largely invisible, now Congress and civil society have access to the same data used by programme managers. Most agencies are willing to think in terms of outcomes, as evidenced by the comprehensive strategic plans that have been produced and taken seriously. A few agencies – the exception rather than the rule – have taken steps to change their accountability mechanisms and internal processes to promote agency performance. Thus, what has been achieved in the United States is the first element of a performance budgeting system that was elaborated above: A definition and quantification of outcomes/outputs for each programme or agency.

Despite the rhetoric associated with GPRA, the reality of what changed in statute and process did not meet the rhetoric of moving to a performance-based budgeting system. Agencies were not given managerial flexibility – the second element of a performance budgeting system – to allow them to achieve goals. While GPRA attempted to allow flexibility as well as provide for more extensive pilot programmes, in reality the changes were limited. Moreover, no agency was chosen to participate in the pilot programme. Internal management processes also did not change: accountability is still an organisational concept, and individual managers and staff are still not personally accountable for results. Most agencies, while committed to fulfilling the requirements of the law, often see GPRA as simply adding to reporting requirements. It is a credit to the professionalism of the civil service that they take the exercise seriously even though there are no real rewards or sanctions for compliance.

While agencies are producing more performance data, there are other data gaps. Few agencies can calculate the marginal change in performance resulting from marginal change in resources. Fully costing activities and producing unit costs are rudimentary or not produced. Agencies have been slow to change accounting systems. In what is a universal problem across the OECD, inter- and intra-agency performance goals and measures are limited at best. Most agencies do poorly at identifying and describing the process and steps they are taking to achieve performance goals.

Perhaps the biggest problem is that performance information has not been used to inform budget decisions – the third element of a performance budgeting system elaborated above. GPRA did not lead to extensive use by the executive branch of performance data in budget decision-making. More importantly though, GPRA did not require Congress to do anything differently; neither the authorisation and oversight process nor the budget and appropriations process were changed in GPRA. While linking funding

decisions to programme performance was part of the rhetoric of GPRA, there was not any statutory or process change to bring it about. Instead, the goal seemed that if the executive branch took the exercise seriously, so too would Congress. Yet, the existence of plans and performance data has not pushed Congress to make reforms to its process. This is significant because of the powerful role Congress has in authorising programmes, crafting appropriations and overseeing programme performance. In sum, Congress has simply not used the information presented to it, and there appears to be no plans to use the information in a meaningful way.

There are many possible reasons for not using the GPRA plan reports in Congress. Congress is by nature a conservative institution, slow to change. To move to a performance budgeting system would mean fundamental changes to a system that is deeply rooted in tradition. There is also suspicion on the part of some that the plans are politically motivated and the data not reliable. Congress has no real role in setting out missions and outcome objectives, thus it does not necessarily have a direct interest in the success or failure of the plans. If performance budgeting means giving more freedom to executive branch managers, in the US context of strong congressional influence in the budget process, this would imply transferring power from the legislative branch to the executive branch. Finally, legislatures legislate and thus they are inherently more interested in compliance with the laws they write than in performance. Thus Congress, as well as the executive branch, must find performance information useful and relevant to their decision-making processes.

3.3. The President's Management Agenda: Budget and performance

Most observers agree that GPRA has not worked or at least has not worked in the way it was intended. President Bush was elected to office with a platform to improve the government's performance and upon entering office proposed a five-part Presidential Management Agenda (as well as eight programme initiatives). Section 4 of this report will present an in-depth analysis of the President's Management Agenda. One of its features is a budget and performance integration initiative which is a way to fulfil the ideals of the GPRA system. This initiative will attempt to line up performance information to guide the budget debate.

3.4. The PART process

For the 2004 budget process, OMB started a new systematic evaluation of all government programmes. This evaluation procedure is called the Program Assessment Rating Tool (PART) process. The review is conducted in four weighted sections that focus on programme purpose, strategic planning, management and results. Box 7 describes the PART process in more detail.

The assessment is further separated and refined by type of programme (e.g. competitive grant, formula grant, research and development, etc.) and whether it is mandatory and the benefits are prescribed in law or whether it is subject to annual appropriations. Ratings were originally yes-no responses to a list of questions, but after comments they were later expanded to include four choices in the results section so that progress and partial results can be gauged.

Box 7. The PART Assessment

Programme purpose and design – 20% of score: Assess whether the programme design makes sense and the purpose is clear.

Strategic planning – 10% of score: Assess whether the agency sets valid annual and long-term goals for the programme (includes section on collaboration and co-ordination with other programmes).

Programme management – 20% of score: Rating of programme management, including financial oversight and programme improvement efforts.

Programme results and accountability – 50% of score: Rating of programme performance based on goals reviewed in strategic planning and through other evaluations.

The PART exercise for 2004 reviewed 20% of federal programmes, and each year OMB plans to review 20% of programmes so that all will be reviewed by the 2008 budget submission. The candidates for review for FY2004 were broadly representative of all government programmes but were not necessarily randomly chosen. Some were picked because the programme was set to be reauthorised that year, others because there was good performance data available, while others were selected because there was a related budget issue and the performance was known to be good or bad.

There are five ratings that a programme can receive: effective, moderately effective, adequate, ineffective and results not demonstrated (if adequate measures of programme effectiveness or other programme data were not available). Half of the programmes evaluated were rated in the latter category of “results not demonstrated” indicating there is a serious deficiency in performance measures. (See Annex 1 for an annotated example of a PART review.)

It is not clear how the President’s Management Agenda is going to change the accountability process. Accountability is still a collective process, and in theory the President is held accountable and then holds accountable those

beneath him and so on. The President's Management Agenda is focused on the tools of management, rather than how those tools are used. It is not clear if enough attention has been paid to how government managers use performance information in the regular course of operating a programme and how departments and individuals are held to account for performance. However, part of the Human Capital Initiative in the Management Agenda is to link individual performance appraisals to agency goals and missions. It is still too early to judge the success or failure of this initiative, but there appears to be a disconnection between annual output goals and the outcome goals and agency missions. Without a better link it is doubtful a new accountability regime could work.

Another potential problem is the co-ordination among similar programmes. While the strategic planning assessment includes looking at collaboration and co-ordination, it is not worth much in the final rating. While this is not a fatal problem, it does not encourage programme managers to link up related programmes in support of outcome or impact goals. Since many of the programmes are small categorical grants, giving a broader view of the range of related programmes – including the difficult task of inter-departmental co-ordination – could improve programme effectiveness.

It is not enough in the US context to emphasise programme co-ordination across the federal government when many of the services provided by the federal government are administered by state and local governments. Furthermore, states often operate their own programmes that both complement and contradict federal programmes and can skew programme goals. Looking at new accountability and co-ordination arrangements with lower levels of government is necessary to a successful performance-oriented budget process. (See Annex 2 which discusses relations among levels of government in the United States.)

3.5. Challenges and opportunities in results-oriented budgeting

The process of creating a performance management system is still at a basic level in the United States. Further, it is incorrect to say that the United States has a performance budgeting system despite the current administration's attempt to inform its budget choices with performance information. To date, not much has changed except new reporting requirements for agencies, and most of the large questions of process, use and accountability are unanswered. The President's PART evaluation is a good first step in creating a results-oriented budgeting system. The administration is at the critical junction where past Presidents have failed, and is confronted with the fundamental question of whether the PART review – or the plans for budget and performance integration – can last beyond the interest of a single President (or indeed Director of OMB) and become a sustained and real

exercise. If the United States is serious about moving towards a performance budgeting system, there must eventually be statutory changes. It is clear that two lessons for the United States are that, one, administration initiatives (like PPBS and maybe PART) need congressional buy-in, and two, rules and statute matter in the US system. This should not be construed to mean that simply legislating a system equates to having a performance budgeting system; only that a formal statutory structure is a basis for further development of a performance budgeting system.

While making the process rooted in statute, emphasis also needs to be placed on the mechanical detail of performance and performance budgeting: obtaining the true cost of delivering services, selecting and adhering to appropriate measures, creating confidence in the measures, using performance as an aid for decision-making and using performance in the regular administrative process. This is a difficult and long process. The experience of GPRA shows that simply telling people to think of performance in their provision of service is not enough to change behaviour.

It is unlikely that the United States will change its system of small categorical programmes and the highly detailed control over budgets and programme management exercised by Congress. This will be a real impediment to moving forward in performance budgeting since programme managers will always be able to claim that their hands were tied by strict programme rules and inflexible budget accounts. Pilot programmes could be tried to test greater flexibility between similar programmes. To facilitate these pilot programmes, the PART exercise could assign more weight to programme co-ordination and collaboration. Not only must the United States focus on the size and construction of grants, but Congress can look at accountability arrangements with grant programmes administered by sub-national governments and other actors to ensure that goals set are reasonable as well as achievable.

With GPRA being law for over 10 years, there are lessons for countries wishing to reform their system that the reforms take time and that the reforms must be formal so that they outlast the current political climate. OECD member countries that have implemented more ambitious reforms show that there are challenges waiting for the United States. For example, selecting appropriate measures is extremely difficult, and reliably reporting them even more so. While data are currently taken at face value (and this is often the case in OECD member countries), bad data are often worse than no data at all. Accountability for results, particularly outcomes that are not directly under managerial control, is universally a problem. There are few convincing answers about how to reward good performance and sanction bad performance, since budget decisions are rarely made on performance criteria alone. Thus, the United States is just starting on a road that, if taken to its

conclusions, means broad and fundamental changes to a system that is slow to change.

4. Management

4.1. Introduction

Although the President is clearly the chief executive of the government, the “oversight” responsibilities of Congress are so expansive that, in practical terms, it is accurate to say that the President and the Congress “co-manage” the executive branch. This is due largely to the constitutional tensions between the roles of the executive and legislative branches in affecting the management of the government. This poses great challenges for achieving management reform in the government. For example, Congress has enacted approximately 80 general management laws which apply across the government.¹³ In general, these acts are very detailed, allowing little flexibility in their implementation.

Notwithstanding this, the current administration has launched ambitious reform initiatives in this area, known collectively as the *President’s Management Agenda*. This agenda is focused on both general government-wide initiatives and specific programme initiatives.¹⁴

There are three very noteworthy factors about the *President’s Management Agenda*:

- First, this effort is overseen by the Office of Management and Budget, rather than being placed in separate units, and the process reinforces and supports the budget process.
- Second, agencies are given grades (red, yellow, green) on their success in implementing the Management Agenda and these are made public.
- Third, the explicit identification of the President himself with the reform effort gives it added stature and should not be underestimated.

It should also be recognised that the current reforms build on previous reform efforts, such as *Reform 99* in the Reagan Administration and *Reinventing Government* in the Clinton Administration.

This chapter reviews key organisational structures, managerial flexibility and financial management issues within the United States Government.

4.2. Organisational structure

The organisational structure of the federal government is composed of the Executive Office of the President, departments (ministries), departmental agencies which are components of departments, independent agencies, independent regulatory commissions and a limited number of other special purpose entities.¹⁵

The President is the head of the executive branch and the *Executive Office of the President* is the key organisation for policy development and co-ordination of the executive branch. It consists of 14 offices, including the White House Office and the Office of Management and Budget.

There are 15 departments (ministries), each headed by a secretary (minister). The departments vary widely in size, importance and traditions of management. As a general proposition, departments administer a range of programmes directed toward a common purpose of national importance. The Department of Homeland Security is the newest department.

Within departments, there are some 200 departmental agencies. These are the operating units responsible for the implementation of programmes. Their relationship to their “parent” departments may vary greatly depending upon a number of circumstances. For one thing, the agency and its relationships with Congress, with clientele organisations and with other agencies may have pre-dated the creation of the department itself. Some departmental agencies have a strong professional culture that can give rise to significant autonomy from departmental headquarters.

There are about 70 independent agencies that are not located within any department. Aside from this, independent agencies are regular agencies of government subject to similar management laws and regulations as are agencies within departments. While there are a variety of arrangements, most heads of independent agencies formally report directly to the President.

There are 14 bodies referred to collectively as independent regulatory commissions. Their most distinguishing characteristic is that they are governed by multi-member boards. For example, the Securities and Exchange Commission (SEC) has five Commissioners who are appointed by the President and confirmed by the Senate. Their terms last five years and are staggered so that one Commissioner’s term ends each year. Furthermore, no more than three Commissioners may belong to the same political party. The President also designates one of the Commissioners as Chairman (the top executive). They are selectively¹⁶ exempt from various management laws and regulations that apply to other bodies in the government.

There are a limited number of other organisations which cannot be readily classified in the above categories but some of which are predominately governmental. These include government corporations, government-sponsored enterprises and other quasi-governmental entities. The various government-wide management laws generally do not apply to entities in this category.

It is widely accepted that significant reforms to the organisational structure of the government are desirable. The present arrangements are generally acknowledged to involve duplication and overlap of responsibilities,

which wastes resources and impairs the government from achieving its mission in a variety of fields. The common theme to most reform proposals is for the government to be reorganised into a limited number of “mission-related” departments, and for the various departmental and independent agencies to be assigned to the relevant departments.

Such comprehensive reorganisations are, however, rare in the United States. There have only been three such major reforms in the past century. In 1933, during the Great Depression, President Roosevelt instituted a far-reaching reform of the economic and social aid agencies. In 1947, in the aftermath of World War II, President Truman carried out a major reorganisation of the foreign and defence agencies. In 2002, in response to the new threat from terrorism, President Bush instituted a major reform of the homeland security agencies.

Two important conclusions can be drawn from the fact that major upheavals are most often the trigger for such large-scale reorganisations. First, it shows how important organisational structure is deemed to be in order for the government to effectively deal with crises. Second, it highlights the immense obstacles faced in reforming the organisational structure of the government.

It is the unique relationship between the executive and legislative branches that makes such change so difficult to achieve in the United States. As described in a previous section, each government entity has committees and subcommittees in Congress responsible for its oversight. Large-scale reorganisation of the government would require each and every relevant committee and sub-committee to agree to it, and for a similar reorganisation of the committee and sub-committee structure in Congress to take place for future oversight.

The Chairman of the House of Representatives Committee on Government Reform recently said:

For example, for Congress to even consider a restructuring of the dozen federal offices involved in food safety, over 30 committees and sub-committees in Congress would be involved. I can't imagine what it would take to get all 30 committees and sub-committees to come to agreement on how to reorganise the structure of federal food safety oversight.¹⁷

In order to overcome this, the President has proposed for Congress to grant him Permanent Reorganisation Authority. Presidents have enjoyed such authorities in the past. This would allow the President to propose to Congress comprehensive reorganisation “packages”, which Congress could either adopt or reject in totality. It could not make any changes to the President's proposal. A recent example of Congress granting such authority was the Base Closure and Realignment Act, in which this approach was applied to the politically sensitive

closure of surplus military bases in the 1990s. It is generally agreed that the base closures would not have taken place without such a special mechanism.¹⁸

It is not at all clear whether Congress will grant the President such authority to reorganise the government, although the recent creation of the Department of Homeland Security may have garnered momentum for such reforms. In the absence of such reforms, the policy development and co-ordination roles played by the Executive Office of the President, especially the White House Office and the Office of Management and Budget, will likely expand still further.

Box 8. “Agencies”

It should be emphasised that the term “agency” does not have the same meaning in the United States as it does in Scandinavian countries or in the United Kingdom. The systematic separation of policy-making departments (ministries) and agencies that enjoy significant managerial flexibility in executing those policies does not exist. Nor is there any significant discussion of applying this model in the United States. In fact, the term “agency” is used in the United States as a generic term denoting any government entity.

4.3. Managerial flexibility

Managerial flexibility is low in the United States compared to most other OECD member countries. This is again a function of the strong role played by Congress in the budget process.

4.3.1. Use of appropriations

It is difficult to make general statements regarding flexibility in the use of appropriations, as the relevant legal provisions are most often specific to each government entity. This is based on the fact that there are 13 appropriations sub-committees in both the House and the Senate that prepare the 13 separate appropriations acts. Different traditions and practices have developed in the separate sub-committees, and they have different relationships with the various entities that they oversee.

All in all, there are some 1 000 appropriations accounts. The accounts are generally subdivided for different programmes within agencies. A “salaries and expenses” account in a department may cover programmes in a number of other accounts, although practice varies considerably. Separate accounts are generally in place for larger capital expenditures and transfer programmes. There are also various specific restrictions and earmarkings enacted into law for each account.

Transfers between accounts require congressional approval. In rare cases, Congress has granted general transfer authority to certain entities. For example, the Department of Defense may transfer up to 10% of an account to another account within the Department of Defense. Similarly, the Department of Homeland Security may transfer up to a specified dollar amount of an account to another account within the Department of Homeland Security. The general rule, however, is that this is not possible.

Transfers between programmes within an account are referred to as reprogramming. Reprogrammings are often difficult to identify within accounts as they simply get overwhelmed by the overall size of the account. Reprogrammings are also subject to tensions between the relative constitutional roles of the President and the legislature. The general practice has been for the President to notify Congress of any reprogramming. Individual congressional committees, however, viewed that it could veto any reprogramming. This resulted in a Supreme Court ruling that declared individual congressional committee vetoes unconstitutional, and now full congressional action is required to deny reprogramming. As a result, Congress now generally writes into appropriations acts that reprogramming is only allowed up to a very small amount, often as low as several hundred thousand dollars. There would, however, appear to be cases of informal arrangements between committees and departments to do this. In short, it is a “murky” area, as one commentator has phrased it.

A further limit on managerial flexibility in this area, and as noted previously, is the fact that each department and agency must submit “Congressional Justifications” to their respective appropriations sub-committees where detailed spending plans are presented. This can be referred to as “soft law” as the sub-committees generally expect agencies to follow the plans specified in the justification, and may in fact make explicit reference to that in their respective appropriations acts.

Finally, the President is not allowed by law to withhold appropriated monies from an agency except through a formal process of deferrals (which Congress may overturn and which may not be used for policy reasons) or rescissions (which Congress must approve and which may be used for any reason). The flexibility of not spending money is therefore not available to the President as it is in many other OECD member countries. (However, agencies are not required to spend all the appropriated monies that have been apportioned to them by OMB, and unspent funds are returned to the Treasury.) This law again stems from tensions between the Congress and the President over the right to set funding policy and priorities. The Congress felt that the President was usurping congressional power by not releasing monies to the agencies for policy reasons even though the Congress had appropriated monies for such programmes.

It is unlikely that Congress will grant the executive significantly greater flexibility in the use of appropriations until it is satisfied that the performance information in the budget gives it a sufficient basis for holding the executive to account. This is further discussed in the next section.

4.3.2. Personnel management

Personnel management is somewhat of a paradox in the federal government. The degree of managerial flexibility reported depends upon to a large extent to whom the question is asked.

A complex and centralised personnel management system – administered by the Office of Personnel Management (OPM) – is in place. It dates from the 1940s and applies uniformly across all government departments and agencies. It is viewed as inflexible and out-of-date. Recruiting staff has been difficult due to restrictive selection criteria and rigid classification schemes. Uniform salary scales have made it difficult to recruit and retain personnel in critical areas. The system's narrow pay ranges, time-based pay progression rules, and across-the-board delivery of annual increases are viewed as antithetical to fostering performance.

OPM, however, claims that it has delegated most of its functions to departments and agencies and that a significant number of flexibilities exist in the current law that departments and agencies are simply not using. Departments counter that getting approval from OPM to take advantage of such flexibilities is “painful” and not worth the time and effort.

At the same time, an ever-increasing number of government departments and agencies are receiving blanket congressional exemptions from the centralised personnel management system and being given the authority to create their own individualised systems. These are not only small agencies but critical entities such as the Internal Revenue Service (tax office), the Federal Aviation Administration (air traffic control) and – most recently – the Department of Homeland Security.

Box 9. Role of unions

As a general statement, government employees are not allowed to strike and there is no collective bargaining over pay. Pay increases are proposed by the President and approved by the Congress as part of the budget process.

A majority of civilian government employees are, however, represented by unions, and unions play an important role in safeguarding various employee rights.

It seems clear that the centralised personnel management system has outlived its usefulness. Departments and agencies are increasingly exempt from it, and the agency administering the system highlights the various manners around its general conditions as one of its key attributes.

As part of his Management Agenda, the President has proposed a “Freedom to Manage Act” to Congress. The act would increase flexibility in various areas of personnel management. Congress has not yet acted on this, although many of its key elements are now part of the Department of Homeland Security personnel regime.

4.3.3. Common service provisions: Accommodations

All non-military federal departments and agencies typically lease their office space from the General Services Administration (GSA), which is the government’s landlord (and provider of many other common services). The GSA collects rents from all federal tenants; this is the GSA’s principal funding mechanism in this area. The rents are meant to reflect market rents in the relevant communities where the buildings are located.

The GSA has, however, required additional appropriations in recent years, as collected rents have not been enough to cover the expenditure associated with its properties. This has highlighted the fact that the government has a large amount of inappropriate buildings which are surplus to requirements. There are now efforts to dispose of these buildings.

There are no reforms planned to give all departments and agencies the freedom to choose their own accommodations, although some agencies are receiving exemptions from the requirement to lease their accommodations from the GSA.

4.4. Financial management

This section highlights key financial management practices in the United States.

4.4.1. Basis of accounting and budgeting

The United States rapidly introduced a full accrual basis for its financial reporting. The enactment of the Chief Financial Officers Act in 1990 spearheaded this development. It required that agencies’ trust funds, revolving funds and substantial commercial activities be covered by accrual financial statements. The act also identified 10 specific pilot projects to report on an accrual basis. In 1994, the Government Management Reform Act was enacted which extended the requirements for accrual financial statements to all of the activities of the agencies covered by the Chief Financial Officers Act

and required that an annual government-wide financial statement be prepared on an accrual basis starting with the FY1997-1998.¹⁹

The budget is an obligations-based budget, in which Congress appropriates the authority for agencies to enter into obligations and most transactions are recorded on a cash basis. Accruals have been adopted for a few specific transactions in determining the amount obligated and the corresponding amount of the outlay. A crucial guiding principle behind the choice between cash and accruals is to match the political decision to spend money with the recording of cost in the budget. For example, the government must estimate the subsidy element for direct loans and loan guarantees and fully appropriate authority for the amount of subsidy elements before entering into obligations to make or guarantee a loan. The resulting outlay is likewise the amount of the subsidy element. Interest on the debt held by the public is similarly treated on an accrual basis. The cost of some employee pensions and other retirement benefits is charged to agencies and funded on an accrual basis during each year of service, although the pensions and other benefits are recorded as budget outlays when they are paid. The principle would extend the use of accruals to all employee pensions and retirement benefits, as proposed by the administration, and in concept to a few other transactions.

The importance of an obligations-based budget is that moneys can be disbursed (in general) for up to five years from the fiscal year that they were originally obligated, and that, if the legislation provides, the moneys can also be obligated in later years than the year for which they were appropriated. This has the greatest significance in terms of capital projects. OMB has the firm view that all capital projects should be fully funded up front, although this goal has not been completely reached. The importance of carrying forward unspent balances can be indicated by the fact that the unobligated balances at the end of 2002 were USD 277 billion and the obligated but unspent balances were USD 595 billion.²⁰

4.4.2. Cash management

Once the budget is enacted, the Office of Management and Budget releases budgetary resources to departments and agencies in a process known as “apportionment”. Apportionment is designed to ensure that annual appropriations will be sufficient for the whole fiscal year. Generally, apportionment is done in quarterly instalments. As part of the apportionment procedure, OMB can place any restriction on the apportionment, similar to the earmarkings and restrictions that Congress may use – directing departments and agencies to spend on certain things and not on others. This is, however, extremely rare.

The Department of the Treasury is responsible for the daily management of the cash balances for the United States Government. Most moneys are paid directly from the Treasury in accordance with validated payment requests from departments and agencies. There is no system of departments and agencies having accounts in commercial banks. Most moneys paid to the Treasury are first paid by individuals and corporations to commercial banks, which promptly credit it to accounts of the Treasury. Treasury, in turn, transfers the moneys to its accounts in the Federal Reserve Bank as it needs money to make disbursements.

The Treasury does not employ any incentives schemes whereby interest is paid to departments and agencies on unused balances, nor does it penalise departments and agencies for accelerated spending. Unused balances in the United States are bookkeeping entries, not real resources that are costly to hold. There is no system of capital charging in the United States for the value of assets tied up in agencies, although there is an implicit change in the rents paid for office space to the General Services Administration.

4.4.3. Fiscal reporting

The United States employs a very comprehensive system of reporting on budget implementation. The daily balance for the Treasury is released each day. A monthly report on total revenue and expenses is released within three weeks of the end of each month. The monthly reports, however, compare total receipts and outlays to the same time period of the previous year rather than to any planned level of receipts and outlays during the current year. These reports are prepared by the Treasury Department and are not audited. After the end of the year, Treasury publishes a comprehensive *Combined Statement of Receipts, Outlays, and Balances*, and the Budget shows data by account for the completed fiscal year in the same detail as its estimates for the current year and budget year.

The Office of Management and Budget prepares a *Mid-session Review of the Budget* each year. This provides an updated summary of the government's receipts and outlays estimates for the fiscal year. It highlights any changes in economic assumptions or policies since the enactment of the budget. This is generally issued in mid-July.

As noted earlier, each agency and department prepares financial statements on a full accrual basis, and the Treasury Department consolidates these into the government-wide financial statements. The latter are available five months after the fact and this delay has been criticised. It has been decided that, effective FY2003-2004, the government-wide financial statements will be available two and a half months after the close of the fiscal year.

More fundamental than slow preparation, the General Accounting Office has never given a clean audit opinion on the government-wide financial statements. They have always received a disclaimer of opinion. This is in part a function of the qualified opinions that the auditor has given individual agencies and departments, notably the Defense Department. The President's Management Agenda places a heavy emphasis on all government entities receiving a clean audit.

The fact that the budget and the financial statements are on a different basis of measurement (predominantly cash vs. accrual) is simply recognised as a fact. No convergence of the accounting and budgeting bases is foreseen. Almost all public discussion of the state of fiscal finances refers to the basis applied in the budget. The financial statements prepared on an accrual basis would appear to be secondary in nature from that perspective.

4.5. Conclusion

This section has reviewed the organisational structure, the level of managerial flexibility and key financial management issues in the United States Government. It has identified areas in need of reform and also highlighted the obstacles in achieving reform.

Many of the obstacles – especially in terms of organisational structure and managerial flexibility – rely on co-operation between the President and the Congress. Historically, the presidency and the Congress are often in the control of different political parties. Thus, they may not agree on goals or relative priorities. It is not necessarily a question of permitting the executive freedom to achieve an agreed goal efficiently. The presidency and the Congress are now under the control of the same political party. The President has invested significant political capital in the advancement of his Management Agenda, and Congress has reacted positively to such initiatives as the establishment of the Department of Homeland Security and granting it and other agencies increased managerial flexibility. This may well augur well for improving management practices in the United States.

Significantly more flexibility is, however, contingent on a greater acceptance of the *quid pro quo* of relaxing input controls with robust results-oriented measures. This acceptance will have to come from all players in the executive and the legislative branches.

ANNEX 1

PART Review – Annotated Example

Programme: Safe and Drug-Free Schools State Grants
Agency: Department of Education
Bureau: Office of Elementary and Secondary Education
Programme type: Block/Formula Grants
Rating: Ineffective

Ratings (out of 100)

Purpose: 60

Planning: 57

Management: 38

Results/accountability: 0

Key performance measures

Long-term measure: Measures under development

Annual measure: Measures under development

Programme summary:

Safe and Drug-Free Schools State Grants awards grants to states and school districts for programmes to reduce youth crime and drug abuse.

The PART assessment found that:

1. The programme has failed to demonstrate effectiveness. Existing programme indicators use national surveys that do not measure youth crime and drug abuse at state and local levels.
2. A 2001 RAND study determined that the structure of the Safe and Drug-Free Schools State Grants programme is fundamentally flawed. The study concluded that Safe and Drug-Free grant funds are spread too thinly to support quality interventions.

3. Programme financial management is good, but the agency should bolster efforts to attain higher quality programme performance information and provide meaningful technical assistance through the State Grants authority.
4. The Department of Education has authored "Principles of Effectiveness" in an attempt to influence how school districts run Safe and Drug-Free programmes. The principles include guidelines for instituting measurable goals and objectives, research-based programmes, and strong evaluation techniques. However, the agency needs to provide performance measures that help improve local programming decisions and are of equal use to state, local and federal administrators.

In response to these findings, the administration will:

1. Make a modest reduction in funding and tie future funding to the demonstration of results.
2. Develop a new strategy for measuring programme performance that helps improve local programming decisions and is of equal use to state, local and federal administrators.
3. Study ways to redesign the programme in order to better distribute funds and support high quality, research-based strategies at the local level.

Programme funding level (in millions of dollars)

2002 Actual	2003 Estimate	2004 Estimate
472	472	422

This PART summary was randomly selected from the evaluations completed in the FY2004 budget submission. An analysis of the summary demonstrates many of the conclusions contained in this review.

- Very small categorical grants: The grant provides 50 states with USD 472 million for a limited purpose.
- Lack of managerial flexibility: States implement the programme, federal government programme managers have no way to influence state use of grant to achieve broader outcome goals. There is no co-ordination with other similar programmes.
- Lack of programme measures.
- Study conducted by outside source: *ad hoc* evaluations; while individually some may be good there is no guarantee they are all accurate.
- BEA causes flat funding: This is a discretionary programme and 2002 and 2003 spending are flat.
- The programme is judged ineffective but only receives a recommendation for a modest reduction in spending (only four programmes reviewed by PART in the FY2004 budget were targeted for termination).

ANNEX 2

Fiscal Relations Among Levels of Government

The US system is a moderately decentralised system with highly autonomous sub-national governments. The Constitution provides for the independence of states, but is vague on the split of responsibilities between the federal government and the states. In fact, there is no constitutional provision or single law that dictates relations between the levels of government. States are independent but subject to the federal Constitution and federal laws that are constitutional, so the Supreme Court is responsible for all legal disputes among states as well as between the states and the federal government. Local governments are in turn subject to state laws, thus there is a wide variety of arrangements between states and local authorities.

The federal government has no role in approving state expenditures or reporting except to the extent that states opt to participate in federal grant programmes. States have complete autonomy on taxes as well, but for simplicity they have tied some state taxes to federal laws. Thus, changes to federal tax structure may also have an effect on state tax receipts if not offset. In the recent budget climate, federal taxes have been cut in ways that have lowered state revenues as well. This is especially important since state and local governments are generally constrained by balanced budget requirements of state constitutions. Sub-national governments can enter into debt arrangements especially for capital projects. Debt discipline is generally handled by financial market reaction to state finances and some limitations of state constitutions. Because of constraints on state spending, the federal government is often a release valve for states as they try to shift state-funded costs to the federal government principally in open-ended entitlement programmes. Cost shifting happens in reverse as well. As new federal funds have been scarce, the federal government has tried to mandate spending in sub-national governments to address national goals. Explicit unfunded mandates were prohibited in 1995 (unless waived by a majority vote of Congress). However, Congress has implicitly tried to mandate spending by adding new requirements to grant programmes.

General government expenditure represents about 30% of GDP, which is below the OECD average of 42%. State and local governments account for one-third of total general government spending (USD 1 trillion) and the federal government two-thirds (USD 2 trillion). Seventeen per cent of federal spending or USD 350 billion, was sent to the states and localities in the form of grants. This USD 350 billion represented one-quarter of state and local spending. There is no general revenue sharing programme in effect; the last revenue sharing system was discontinued in the early 1980s. The federal funds that go to the state and local level are through 600 categorical and block grants. These grants are both matched and unmatched, but the largest grants are matched with state-raised funds. Eighty-five per cent of grant funds are distributed by formula, and 40% of federal grants to states go to the Medicaid programme – the health programme for low income people. As well as being the largest programme, Medicaid is also the fastest growing programme (13% in 2002) which prompted one observer to say “the only issue is Medicaid in state/federal fiscal relations”.

Notes

1. Originally the law stated that the President should act on the basis of a sequestration report of the Comptroller General of the United States, which in turn had to be based on a joint report of OMB and the Congressional Budget Office. However, in *Bowsher vs. Synar*, the Supreme Court held that this arrangement was incompatible with the constitutional separation of powers. In the 1987 revision of the law, OMB was made responsible for the estimates that would trigger the sequestration procedure. CBO was henceforth to issue advisory sequestration reports.
2. See the evaluation of the BEA by the Congressional Budget Office in Appendix A1 of *The Budget and Economic Outlook: Fiscal Years 2004-2013*.
3. When the BEA was extended in 1997, the deficit target of zero (budget balance) was set for 2002. This target was already reached in the next year, due to favourable macroeconomic conditions.
4. Sequestering is difficult anyway in the PAYGO part of the budget, since 96% of expenditure in this part of the budget is formally exempted from sequestering.
5. The terms “department” and “secretary” as its head are used throughout this section, even though OMB communicates directly with various non-departmental independent bodies as well, whose heads have different titles.
6. The President has a legislative agenda of his own, but the changes technically must be introduced by a member of the legislature and be subject to the same requirements as any other bill. In practice, programme specialists as well as political officials from the executive branch often assist or are consulted during the drafting of laws in the congressional legislative process.
7. The Tax Writing Committees, which also oversee the largest mandatory spending programmes, are the other most sought-after seats. Also in the House of

Representatives, the Rules Committee is highly coveted since all procedural rules are decided on a bill-by-bill basis.

8. The Senate extended some of the internal Senate rules through 15 April 2003.
9. Most programmes including entitlement programmes must be “reauthorised” on a periodic basis (generally five years). This process allows Congress to make programmatic and management process changes and set out a limit for spending on the programme. A programme, however, does not need to be currently “authorised” to receive funding nor is the Appropriations Committee required to respect the level of authorised expenditure.
10. It is doubtful that any OECD member country will create a direct link between outcomes/outputs and appropriations. Performance is only one of many elements that go into budgetary decision-making; performance reporting can be used in many positive ways (organisational learning, accountability arrangements, benchmarking, etc.) that do not entail linking budget decisions to the reports.
11. PPBS – Planning, Programming and Budgeting System; MBO – Management by Objectives; and ZBB – Zero-based budgeting.
12. The term agency is used differently in the United States compared to other countries. In US terminology, agencies (also called departments) are the equivalent of ministries. There are independent agencies that fit the international use of the word agency as an arm’s-length, autonomous or semi-autonomous agency.
13. Congressional Research Service, *General Management Laws: A Selective Compendium*, January 2001.
14. For further information on the President’s Management Agenda, see *Budget of the United States Government, Fiscal Year 2002*.
15. This discussion draws on R. Moe in *Distributed Public Governance – Agencies, Authorities and Other Government Bodies*, OECD, 2002.
16. For example, independent regulatory commissions are subject to GPRA (the Government Performance and Results Act).
17. Committee Hearing, 3 April 2003, Opening Statement by Chairman Tom Davis.
18. For further details on the Base Closure and Realignment Act, see Morrison, D.H. with W.N. McLeod and C. Johns, “Reallocation: Aligning Political Priorities and Budgetary Funding – United States,” *OECD Journal on Budgeting*, 1:2, 2001.
19. Neither the CFO Act nor GMRA used the word “accrual” in describing the required financial statements. Rather the Federal Accounting Standards Advisory Board, established in 1990 by agreement among OMB, GAO and Treasury, developed standards on an accrual basis.
20. Both figures exclude “trust funds”.

Table of Contents

Budgeting in the United States	
By Jón R. Blóndal, Dirk-Jan Kraan and Michael Ruffner.....	7
The Learning Government	
By Graham Scott.....	55
The Performing State: Reflection on an Idea Whose Time Has Come but Whose Implementation Has Not	
By Allen Schick	71
Fiscal Consolidation and Medium-term Fiscal Planning in Japan	
By Hideaki Tanaka	105
Countering Uncertainty in Budget Forecasts	
By Dan Crippen.....	139