New Ideas for Federal Budgeting:  
A Series of Working Papers for the  
National Budgeting Roundtable

Budgeting for National Goals  
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Summary

The ultimate test of a government’s performance is its ability to consistently deliver on promises that leaders have made – through sound legislation followed by effective administration. A primary instrument for turning promises into performance is the budget process, where resources are allocated to specific uses and detailed guidance is provided to executive agencies on resource use. As expressed by an Organisation for Economic Co-operation and Development (OECD) working party of senior budget officials in a 2014 statement of principles of budgetary governance, budgeting is central to governance:

...budgeting is not a standalone process, removed from the other channels of government action. Good budgeting is supported by, and in turn supports, the various pillars of modern public governance: integrity, openness, participation, accountability and a strategic approach to planning and achieving national objectives. Budgeting is thus an essential keystone in the architecture of trust between states and their citizens (OECD 2014, 1).

In the U.S., the budget process begins each year in the executive branch with development of the President’s budget. Those who want to improve the federal government’s performance should reexamine the way that process has unfolded in recent years and consider whether it is possible to approach budget choices in a way that better supports the achievement of our goals as a nation.

Developing the President’s Budget

Every spring, the cherry blossoms’ fall signals the start of a new budget season. It usually starts with a discussion between the Director of the Office of Management and Budget (OMB) and the President on the broad outlines of the budget the President will be submitting the following February. Then OMB directs the executive departments and other agencies to begin preparing their budgets for the fiscal year to begin in about 18 months. Over the summer, agencies prepare their detailed proposals and run an often rigorous internal process to vet and prioritize their requests. The results are submitted to OMB around Labor Day, discussed in hearings with OMB staff, and analyzed by that staff, who then draft recommendations to be considered by OMB leadership. After a series of “Director’s Reviews” on the largest policy and budget questions for each agency, decisions are passed back to agencies around Thanksgiving. A separate Review is held on tax policy, led by Treasury Department staff. After a brief round of selective appeals, all decisions for the President’s budget are recorded and prepared for publication, most years in February.¹ Although virtually no public attention is given to the enormous amount of detail generated by those decisions, they are presented to Congress in four volumes, the largest of which is a dense Appendix of over 1,400 pages packed with fine print, numbers, and narrative. For each agency and budget account, the Appendix shows the most recently enacted appropriations language (if available in time), overlaid with proposed new numbers and text (in italics) and proposed deleted numbers and text in [brackets]. Along with detailed tables transmitted with the budget, this volume gives the appropriators and others with a professional interest a detailed road map with which to begin

¹ Exceptions occur when there is a new President, who transmits his budget proposals in less detail and later in the spring. Disruptive conflicts have delayed transmittal of three recent President’s budgets; the FY 2013 budget was transmitted on February 13, 2012, the FY 2014 budget on April 10, 2013, and the FY 2015 budget on March 4, 2014.
Having such a road map greatly reduces the amount of work that appropriators must perform, while leaving them free to make whatever changes they wish as they produce their bills.

Several characteristics of this process are noteworthy and may help explain some of the resulting choices. First, as noted, it is organized around and led by departments and other agencies. This makes sense from an administrative standpoint; but it should be noted that the departmental and agency structure of the executive branch only loosely follows strategic missions. Responsibility for the achievement of major policy objectives typically is shared by multiple agencies. Nevertheless, OMB’s reviews of the departments’ requests are generally performed agency by agency. Some crosscutting analyses and reviews are conducted, but they are not the main focus of the work. Second, most of OMB’s attention is given to spending programs. As previously noted, tax policy, including tax expenditures rivaling appropriated spending in magnitude, and is considered in a separate process originating in the Treasury. Third, primary attention is given to setting spending and policy for the budget year, with less attention to the medium or long term implications of near-term decisions. Exceptions have occurred in some years, especially during the 1990s, when negotiated multi-year legislative spending caps were enacted. However, even during these periods, the process is incremental, focused on the budget year, and stovepiped in alignment with the executive branch’s organization. The process gives insufficient attention to the potential for major long-term investments to address multiple policy goals, to long-term fiscal exposures, or to the long-term cost implications of current commitments.

Today’s way of developing a budget is a reasonable choice given limits of time, energy, and intellectual capacity. Making incremental changes to the existing structure of agencies and programs consistent with an Administration’s priorities simplifies and reduces the number and scope of policy options to be considered. Focusing on details of spending and policy guidance for the budget year reduces the uncertainty of planning for the many known and unknown unknowns that can alter fiscal plans over a longer period; and is especially helpful to congressional appropriators, whose aim is to write and pass legislation that the President will sign, so that the government may continue to operate in the coming year. Because annual legislative action or Presidential signature is not required for other, so-called mandatory or direct spending programs, by default, they often receive less attention.

Economical in its simplification of the number and complexity of required choices, today’s budget process directs too much time and energy to marginal and ameliorative policy adjustments rather than to bigger choices that could achieve breakthrough gains in resource productivity and national goal achievement. It too often gives short shrift to the biggest policy goals, the large structures of policy and social organization that shape policy outcomes, and the largest opportunities for national achievement.

**Example #1: Higher Education**

An example of the opportunity offered by a different approach might be federal support for higher education. The federal budget provides an array of separate grant and loan programs and tax expenditures to help students pay for college, including special programs for veterans. The government also conducts many grant programs for university research and for other higher education purposes. Collectively, these programs are intended to expand access to higher education and to strengthen those institutions, contributing both to mobility and opportunity for students and better national economic performance and competitiveness. Recent analyses suggest this set of policies is ripe for review.

Federal spending programs and tax expenditures, along with regulations and other policy tools, constitutes an important part of the implicit federal strategy to support national goals for higher education. This year, federal spending for higher education will exceed $75 billion, slightly more than the States are expected to spend for their public higher education institutions. An additional $30 billion of revenue losses will result from 11 provisions of the tax code that favor income used to support higher education. These ‘tax expenditures’ convey subsidies just like spending programs.\(^3\) In total, as shown in Figure 1, the federal budget provides over $100 billion annually to support higher education, much of it intended to expand access by directly subsidizing tuition and other expenses or by supporting investments in research and facilities.

Figure 1

![Pie chart showing federal higher education spending and tax expenditures, FY13*](image)

Figure 2 shows the trend in spending by the federal and state governments per student for FYs 2000-2012. As federal higher education spending has increased, it has surpassed states’ combined spending.

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The largest component of federal support is direct federal lending to help students and their families pay for college. When these funds are combined with grants and tax subsidies to support college costs, the federal government was the source of two-thirds of all higher education financing in the last two years. The government’s cost for its lending, including costs when loans are not repaid, is offset by fees, so in most years, the budget records these loans as producing net receipts that reduce deficits. However, this does not measure the impact of federal lending; currently the outstanding volume of college loans totals over $700 billion, and annually over 20 million new student loans add over $100 billion in college debt. As shown in figure 3, the volume of federal lending has increased over time, while so have college costs – making it harder for students to pay for college without going into debt. Unlike past generations, few people of modest means today have the ability to pay or work their way through college. More start their post-college careers burdened by debt, and many default. Income used to repay college debts cannot be used to build wealth, reducing the economic returns to higher education. Default can have disastrous financial consequences for students and their families. Often, students end up with disappointing personal returns and debts they are unable to repay.4

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Federal funding, with its associated regulations and administrative requirements, helps support and shape a robust and flourishing array of public and private colleges and universities, competing for students based on price, educational offerings, amenities, location, and other benefits. In many ways, U.S. higher education is the envy of the world. At the same time, many questions have been raised about how effectively the current system of federal grants and loans is contributing to access by those who otherwise would not attend college and whether the increasing reliance on debt is reducing the personal economic returns that otherwise would accrue to those receiving federal support. A body of critical research and empirical evidence raises questions about the effectiveness of current federal strategy compared to alternatives. One common finding is that the range of options and interactions among student loan and grant programs make them hard to understand and challenging for students to calculate how best, when, and where to use them. A Government Accountability Office (GAO) report showed that the interactions among programs can often be perverse for families, as participation in one program can trigger a corresponding reduction in aid from others.

While federal aid has grown, the myriad of subsidies has not been considered holistically, but rather has grown up in an ad hoc fashion, incubated in different congressional committees and federal agencies. It is ripe for review. A deep, systematic look at this portfolio would begin by reconsidering the appropriate national policy goals for that system. Using the best available evidence and analysis, it would then proceed to ask whether these goals are being met as effectively as they could be by current federal policies. This portfolio review would ask: How effective has federal funding and tax policy been in achieving national policy objectives? These include increased access to higher education that leads to better employment and increased earnings, support for specialized curricula for teachers and Science, Technology, Engineering and Math (STEM) education, and various research topics. How does achievement of these policy goals contribute to other policy objectives, such as national economic growth and competitiveness? How much federal support goes to people who otherwise would not attend college and how much to families who otherwise can afford to pay for their children’s college? What is the net return to students on their own investments, and how many are unable to pay off their debts after graduation? To what extent has federal support been offset by tuition increases by universities and by reductions in state spending? What would increase the accountability of colleges and universities for producing results that have economic value to their graduates?

What is the return to federal investment in university research? How do universities and colleges use their funding from federal subsidies, and is this use mainly supportive of national purposes?

Tracing these flows and their net effects is challenging, given the complexity of the federal government’s implicit strategy for higher education and the complexity and diversity of the nation’s higher education system. Proper analysis requires assessment of the whole system of interactions, including regulation.
and other policy tools, rather than evaluation of individual programs. The final stage of such a review would identify alternative strategies for federal support that evidence suggests could yield higher returns relative to the federal government’s policy objectives and improve outcomes for those receiving federal aid.

Higher education is one example of a portfolio of programs, tax policies, and other policy tools directed to a major national policy objectives where systemic analysis could identify ways to substantially increase the productivity of limited public resources, shifting from lower return to higher return uses. Below is another.

**Example #2: Budgeting for Housing Policy**

To better understand limitations of the traditional approach to budgeting and how a portfolio approach would work, it is useful to examine the housing budget, starting with programs of the Department of Housing and Urban Development (HUD). One striking observation about HUD’s budget is how similar in its structure and proportions it is today to HUD’s budget two decades or more earlier. Although HUD’s spending (nearly all subject to annual appropriations) more than doubled in nominal terms from $25 billion in 1993 to $57 billion in 2013, it is quickly apparent that the way money is allocated to various programs has changed little – dominated by various forms of low-income housing assistance, with most of the rest consisting of block grants for community development, housing, and an array of smaller grant programs.

Is the stability of HUD’s budget an indication of satisfaction with its contribution to national policy goals, of the strength of its various constituencies, or could its stability over decades be partly a reflection of the way budgets are constructed?

The traditional way to consider the federal budget’s commitment of resources to housing and urban development is to start with HUD’s budget, but there are other ways. To begin with, it is useful to note that federal support for housing has other major components.

- In 2013, a state-administered federal tax credit for development of low-income housing cost the Treasury an estimated $7.4 billion in revenues, making it more than 7 times larger than HUD’s HOME block grant for similar purposes. The Low-income Housing Tax Credit (LIHTC) is permanently authorized and receives scant attention in the annual budget process.

- The LIHTC is in turn dwarfed by massive tax expenditures to support homeownership. In 2015, $70 billion of potential revenue was lost through claims of the mortgage interest deduction; but an even larger $79 billion in revenue was lost through non-taxation of net imputed rental income of homeowners, a benefit even more heavily skewed toward affluent, older households. Together with smaller revenue reductions from the deductibility of state and local property taxes and deferral of capital gains tax on home sales, these subsidies to homeowners and other residential mortgage holders total over $210 billion in 2015, nearly five times the outlays for all HUD programs, mostly for low-income housing assistance (see Figure 4 below).

- Federal budget support for housing also currently includes several special initiatives to support homeownership in the wake of the financial crisis, as well as the cost of supporting the operations of one of HUD’s largest bureaus, the Federal Housing Administration, administers a single-family mortgage guarantee that assumed great importance and recorded tens of billions of dollars in losses during the financial crisis. In budgetary terms, set by the Credit Reform Act of 1992, these losses take the form of reestimates of the cost of the program’s guarantees issued in prior years and are recorded as mandatory spending in the years when reestimates are made. Appropriators, therefore, do not need to deal with these costs except when estimates are made of the net cost or receipts for new books of FHA business. In annual budgets, FHA is estimated to generate positive net receipts, thanks in part to higher guarantee fees and other program changes following earlier losses. FHA’s ‘negative subsidy receipts’ are included in the discretionary total for HUD and thus offset some of the annual amounts that must be appropriated for its programs.

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6 Revenue losses from specific income tax code provisions that favor some income sources or uses – so-called tax expenditures – are estimated annually by the Treasury and published in the President’s Budget, see chapter 14 of the FY 2015 Budget, Analytical Perspectives, available at [http://www.whitehouse.gov/sites/default/files/omb/budget/fy2015/assets/receipts.pdf](http://www.whitehouse.gov/sites/default/files/omb/budget/fy2015/assets/receipts.pdf).

7 Source: Budget of the United States, Fiscal Year 2016, Historical Tables and Analytical Perspectives
of two large agencies now in federal conservatorship, Fannie Mae and Freddie Mac, and the Federal Home Loan Banks, another government-sponsored enterprise. Prior to 2008, federal subsidies to Fannie and Freddie, in the form of reduced borrowing costs attributable to their government sponsorship and the market's perception of government support, were not included in the budget totals. Support for their operations in conservatorship after takeover totaled over $100 billion at one point, but this amount has now been repaid to the Treasury.\(^8\)

**Figure 4**

![2015 Tax Expenditures for Homeownership Far Exceed HUD Spending (in billions)](image)

It is noteworthy that while HUD's budget receives intense, detailed scrutiny in the annual budget process, the far larger components of federal budget support for housing, which are heavily skewed toward affluent homeowners and housing-related industries such as mortgage lending, real estate brokerage, and construction, receive little or no attention. A broader look at the federal government's housing budget provides a very different picture of its scale, distribution of benefits, and economic implications.

A different way to view HUD's budget is to array its components alongside the programs of other agencies focusing on the same goals and/or serving the same populations. For example, we could consider as a set the various policies aimed at promoting homeownership:

- HUD's homeownership programs work alongside or in combination with mortgage guarantee programs of the Departments of Veterans Affairs and Agriculture as well as the huge tax expenditures for homeownership, support for the mortgage market through Fannie, Freddie, Ginnie Mae, and a variety of other channels, including financial regulations. If the budget process were to periodically review this set of programs together in relation to the goals of increasing the overall return on private and public capital investment and increasing personal financial security, it might address such questions as:
  - What is the effect on economic growth of massive support for this sector, and what would a shift of support to other forms of private investment or public infrastructure yield?
  - How have these tax and spending subsidies increased the price of housing, and what impacts does this have on access to homeownership by various income groups in the economy?

\(^8\) Using a fair-value method of accrual accounting, CBO has estimated that guaranteed and held loans by the two GSEs would cost $19 billion over the period 2015-2024, assuming no change in their status. See CBO (2014).
Who benefits from policies that encourage young families to purchase immobile, illiquid, volatile assets as a primary form of savings? And, what would be the benefits and costs to various groups of alternative policies favoring other forms of saving?

What proportion of the massive destruction of household wealth during the financial crisis is attributable to federal support for homeownership and home equity finance vs. other causes?

A crosscutting strategic review of the budget centered on the goal of promoting homeownership would highlight the disproportionate share of federal subsidies going to affluent, older homeowners and would ask how to square this with the declared goal of expanding homeownership opportunity. It would ask about the distributional effects of higher housing prices stimulated by the subsidies across various income groups. It would ask hard questions about the extent to which young, financially insecure households should be incentivized to purchase homes as their primary form of savings, given the demonstrable losses that have resulted and given alternative forms of personal savings. It seems likely that the evidence would show that the main effects of existing policies have been to encourage affluent families to buy larger homes and to put a large subset of younger, less affluent families at risk of losing their homes, their savings, and their financial security.

Another way to approach the budget for housing is to consider as a set all of the programs that support the goal of helping low-income families move toward work and self-sufficiency:

- HUD’s programs help pay rent for about 5 million mostly low-income households, including many elderly and disabled, with renters contributing 30 percent of their cash incomes and the government paying the rest. HUD-assisted households often receive other federal aid; SNAP or Food Stamps and other food aid administered by Agriculture; Temporary Assistance for Needy Families (TANF) and other assistance and services administered by HHS; Medicaid or Medicare; training and employment programs of the Department of Labor; and through grants to schools serving many poor children. Low-wage individuals who work often receive supplemental income through the refundable earned income tax credit. A wider circle of programs for the population eligible for housing assistance would include aid to homeless veterans, to the mentally ill and other disabled, spending on prisoners, and many other programs, sometimes matched by States’ spending for these and other forms of assistance. Thus, one way to organize budget choices would be around national goals for this population or its components. For the elderly and disabled, housing aid is part of the safety net. For many working and non-working low-income families, housing aid is part of the array of programs aimed both at providing them with economic opportunities. These programs interact in complex ways to promote or discourage work and economic self-sufficiency. If major budget choices were arrayed in this fashion, then an interesting set of questions might be posed; here are just a few:

  - For whom and under what conditions does housing assistance support progress to work and to better jobs and higher incomes?
  - When compared to or combined with other approaches – e.g., support for early childhood education through spending and tax credits or the earned income tax credit – what is the contribution of housing assistance?
  - When welfare programs were reformed in the 1990s to support movement to work, why was HUD’s assistance not reformed in parallel, and how did its role change?
  - As more income is earned, what is the combined marginal tax on additional earnings of the combined phasing out of various benefits and higher payroll tax payments?

A strategic budget review of programs for low-income families, would ask whether housing assistance could be better targeted to those more likely to benefit from it or should be conditioned like TANF on
progress toward employment. It would ask whether or under what market conditions construction subsidies and/or demand-side subsidies such as vouchers are cost-effective in increasing access to better housing and neighborhoods. Given the evidence on how effectively and for which people housing assistance has promoted economic opportunity or led to increased work effort, and given the role that many other federal programs and tax credits play in directly rewarding work and self-investment, a strategic analysis may suggest resources be shifted from low-income housing to other forms of assistance or that housing assistance be conditioned on work and work preparation. Given that construction subsidies often produce expensive new subsidized units that drive other, serviceable, low-rent, unsubsidized units from the stock and the advantage that housing vouchers offer of a broader range of neighborhood choice, analysis may show that construction programs are inferior to housing vouchers as a mode of assistance.

It seems likely that the weight of such analyses would point policy makers in new directions, such as reducing the massive tax subsidies for homeownership by targeting these to a smaller group of households likely to be able to sustain and benefit from owning and shifting spending for low-income family housing assistance from construction to vouchers to encourage more cost-effective approaches to housing choices by low income families.

As these two examples show, strategic budget reviews can raise poignant questions about current policies that are seldom confronted in the current process. This goal-focused way of approaching decisions looks broadly across a range of programs, tax provisions, and regulatory policies when assessing the likely benefits and costs of budget and policy alternatives. But, this approach may be too demanding. Changing the way budget decision-making is focused requires respect for the limits of time, energy, and intellectual capacity of those involved in developing and enacting the federal budget. In designing a potential reform of the process we need to consider both its potential for greater focus and insight and its potential demands on those responsible for analysis and decisions.

**Limits of the Traditional Approach**

The familiar federal budget process is biased toward the base, the incremental, the short term, the familiar, the bird in the hand. It is tactical and narrow, not strategic and global. The process as we know it is piecemeal and fragmented, considering issues in narrow programmatic categories. The routines that support this approach simplify the task intellectually and make it more manageable, but all that effort generally yields limited insight and little change.

Like other policy making, the budget process represents an attempt to use the limited time and attention of policy makers and their staffs productively. Most would say it is essential for budgeters to employ a strategy labeled by Herbert Simon (1956) “bounded rationality,” simplifying the set of choices and then “satisficing” rather than trying somehow to optimize outcomes. Given the complexity of budget and policy decisions and the practical limits of people and systems, choice structures must be simplified. But there are many ways to simplify choices, and thus the question is which approach is most likely to promote consideration of major resource choices within the limited time and energy decision-makers can bring to bear in the budget process.

The opportunity costs of the current approach are large. The way decisions are presented in today’s federal budget process is not well suited to addressing wickedly complex problems that cut across jurisdictional boundaries and can have profound fiscal impacts. It is not set up to achieve breakthrough gains in public productivity through changes in strategic direction. Its myopia is not well suited to considering policies – such as investments (including investments in education and public health), insurance commitments, savings incentives, and pensions – that have a long tail of future benefits and costs. It focuses great attention on details of some expenditures, especially those for administrative costs and grants-in-aid, while giving far less regular or consistent attention to some of the largest elements of the budget, including tax expenditures and entitlements.

**BREAKTHROUGHS**

It is not set up to achieve breakthrough gains in public productivity through changes in strategic direction.
In other advanced countries, “the goal for reforms of budgeting policy levers has been to move away from the underlying incrementalism, which can be inherent to a budget process and which is a barrier to strategic agility” defined as “the ability to quickly and flexibly move resources from one priority to another” (Hawkesworth and Klepsvik 2013, 106-107). U.S. reformers may want to consider ways to restructure budget decision-making so it is organized and conducted with proper respect for the limited capacity and time of policy makers and yet uses these more productively. The first and perhaps biggest changes will need to be made in the executive branch, which has substantial albeit far from unlimited analytical resources and whose initial product, the President’s budget, annually frames and sets the stage for congressional action.

Different angles on the budget can raise new, often-larger questions and may provide novel insights. What if more time and energy could be focused on planning and budgeting for possible initiatives to address the biggest national policy goals, dealing with the most complex problems? The biggest examples of these include enduring policy goals that are subject of continuing, extensive analysis and review in and outside government: reorienting national security spending to increase capabilities while limiting costs; reconciling climate change control with energy independence and economic growth; increasing public productivity and shifting private savings and investment to promote growth; recreating ladders of opportunity for low- and middle-income youth; restructuring health financing and delivery to improve health while slowing cost growth; or increasing educational performance while lowering post-college debt burdens. At the next level down, hundreds of other major policy objectives, reflecting the broad reach of federal responsibilities, have been or could be the focus of periodic in-depth budget review. Because improvements to achieve them involve structural and systemic change, they may require mostly reprioritization of public resources or innovative policies rather than additional cost. The aim of such analyses would be to identify substantial near-term cost savings from more productive use of budgetary resources to yield long-term economic returns, a portion of which could be used to meet future needs. Because they would prioritize more cost-effective strategies to achieve major policy goals, they would in many cases yield net budget savings. In some instances, gains might only require small nudges to change private behavior rather than additional spending. In others, however, changing strategy will require budging from big policy and programmatic commitments embedded in a matrix of solid constituency and contractual obligations. This suggests that an alternative approach to budgeting may have to be used selectively, where it promises to yield the biggest gains.

**An Alternative Approach**

A reformed process that used policy makers’ time more efficiently would help decision-makers focus more of their attention on what they identify as the most important national goals and seize what seem to be the biggest opportunities to adjust policies and resource uses to accelerate goal achievement. It could focus more attention on policies addressing longer-term challenges and on sustained strategies to tackle complex, wicked problems. It could help identify and prioritize investments and other policies promising higher long-term returns over policies supporting low-return consumption spending, in both public and private sectors.

Others have analyzed the problem of how democratic governments can better organize their policy processes, in the midst of pressures to address more immediate demands, to enable greater focus on the biggest challenges over the long term (Jacobs 2011; Fuert 2012; Boston 2014). Here our main focus is on organizing budget decision-making so that policy makers can find and take opportunities to use resources more effectively to achieve major national policy goals.

This will require a shift of focus and mindset by those making policy and perhaps new skills on the part of all participants: a willingness and ability to think about comprehensive, systemic policy designs, i.e., to think about strategies rather than individual programs and agencies; a mental shift to a longer time

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9 In Finland, the Government has defined three requirements for “strategic agility,” i.e., its ability to anticipate and flexibly respond to complex policy challenges: *strategic insight*, a vision of an effective planning for future challenges; *collective commitment*, including dedication to and understanding by the public service and its partners of the actions required to meet future challenges; and *resource flexibility*, allowing the Government to innovate and find efficiencies (see OECD, 2012, pp. 12-13).
orientation consistent with the complexity of achieving major policy goals and the sustained action it takes to change systems; and a willingness to consider shedding ineffective or low-return approaches in order to free resources for investments that promise high long-term yield. Such reforms will not by themselves produce dramatic shifts in policy and resource priorities, given that existing policies are the product of and are continually reinforced by organized interests with a direct stake in the status quo. But without raising larger alternatives in the budget process, political inertia will make big changes far more difficult even when the status quo is demonstrably wasteful of resources.

Focusing more attention and analysis on a smaller number of major policy objectives each year also would respect the crowded policy agenda that consumes most of Congress’s legislative time each session (Adler and Wilkerson 2013). The best near-term opportunities for budgeting focused on major national goals probably lie within the executive branch, but selective involvement by congressional committees in setting priorities for analysis and considering major budget initiatives will be essential to the reform’s effectiveness.

Leaving aside for now the political obstacles to adopting such an approach to budgeting, how could we organize such a process? The starting point would be for the Administration to identify a few major, durable policy objectives for focus each year. Fortunately, work already performed by the executive branch in implementing the 2010 Government Performance and Results Act Modernization Act (GPRAMA) provides a ready-made, comprehensive list of such objectives to select from. The objectives selected in a given year for special attention in developing the President’s budget could be drawn currently from the full array of over 90 priority goals, a small number of cross-cutting strategic goals involving multiple agencies, and over agency 100 strategic goals and more than 300 associated strategic objectives presented with the President’s budget in March 2014. So, in an important way, the ground has been prepared for a new approach to budgeting.

Refocusing on strategic priorities means leaving many lesser resource decisions to a separate decision track or to the discretion of administrators at either the federal or other government levels. A two-track budget development process – where each year one track gives attention to the agenda of improving government performance through better management under current authorities and funding arrangements and the second focuses selectively on in-depth consideration of major changes in policy and resource use for no more than a dozen strategic policy objectives – would seem to offer proper balance.

Our focus here is on the second track. For a policy objective, it is possible to identify a set of federal government policies, spending programs, regulations, tax preferences, and other activity that constitute the relevant policy portfolio for analysis and budgeting. For any major policy objective, the relevant portfolio will cut across agency boundaries and congressional committee jurisdictions. It also typically will interact with activities of other levels of government and nongovernmental actors.

An incoming Administration could set the stage for this approach to the budget by committing itself to a specific set of policy achievements over the four-year period before the next election or for a longer period. This would be consistent with the GPRAMA requirement that all agencies prepare four-year strategic plans in the first year of an Administration, to be issued in the second year, consistent with statutory missions and the Administration’s policy objectives. Each year, then, a small number of strategic objectives drawn from agency plans or, in many instances, integrating the missions and efforts of multiple agencies and programs, could be selected for deeper analysis as a prelude to the following year’s budget process.

Once a small number of strategic objectives is selected for analysis over the coming year, the next step would be to specify the current implicit government strategy for advancing that objective, including

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10 GPRAMA established a framework of strategic planning and reviews that, if fully exploited and aggressively implemented, has the potential to integrate legislation, funding, and regulatory policy decisions for each objective, followed by coordinated management of the objective’s implementation across the responsible network of actors, from joint planning to integrated execution of an evidence-based strategy.
spending programs, tax expenditures, regulations, and the rest. As implemented, the implicit strategy is equivalent to the 'logic model' or causal model implied by that set of government activities, including their interactions with each other and with activities of other governments and private actors. These also can be thought of as policy engines or subsystems created by government (consciously or otherwise) within society in an attempt to push the larger social system to particular outcomes or to sustain those outcomes – better health, more personal or national security, more education, increased economic productivity or competitiveness, and so on. It is striking how little of this strategizing is done explicitly, given the mountain of analysis, including evaluations of government programs, produced in recent decades. Partly this reflects everyone’s focus on discrete programs rather than larger strategies.

Programs as defined by executive agencies are seldom the best units around which to build budgets, given that they seldom align neatly with policy goals; nor do they function in isolation from the activities of many other programs, agencies, other government units, and nongovernmental actors. When evaluating the current strategy/system for achieving a major policy objective, the focus therefore should be not primarily on individual programs or activities but on their relationships and interactions. These relationships can be rated on a continuum ranging from complementary (good) to redundancy (either good or bad, depending on the policy problem) to conflicting and confused (always bad). Other measures of system performance would include its overall productivity/efficiency in achieving policy goal(s), the system's sustainability and resilience over time, and whether it is organized/integrated, especially from the perspective of those most affected, such as program recipients or major non-federal partners.

It is the policy portfolio, operating in a larger system of relationships, that must be analyzed to have insight into how effectively resources are being deployed to achieve a given policy goal. Analysis of the effectiveness of the current strategy is the first step in a process we have called portfolio budgeting (Posner and Redburn 2011). While routine adjustments to programs and policies would be made on a first budget track, in a scaled-back set of reviews similar to those conducted now each year by OMB, a substantial portion of the time and energy of agency and OMB staff would be redirected to the new second portfolio budgeting track. As discussed below, a substantial base of strategy development and evidence-driven reviews has been put in place in the last few years on which this new track can be laid. Reforms by other countries and by States seeking a more strategic approach to budgeting provide another set of experiences on which to draw.

**Toward Portfolio Budgeting: Current Practice**

Having shifted the unit of analysis from programs to portfolios and strategies to achieve major national policy objectives and conducted an in-depth review of the effectiveness of the current strategy, the next step toward portfolio budgeting is organizing major reviews and decisions by portfolio. Budgeting must be connected with existing statutory mandates for strategic planning, performance reporting, and strategic reviews. For each selected portfolio, OMB and Treasury responsibilities would be reorganized to facilitate annual joint policy and budget reviews. This set of goal-focused budget reviews would draw on the findings of the most recent agency strategic reviews and fresh analysis of relevant research, identifying weaknesses in current policy and strategy and presenting evidence in support of possible alternative strategies to achieve greater progress. To understand how this would build on existing processes, we next look at recent developments in strategic planning and follow up under GPRAMA.

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11 In-depth reviews of all federal programs were conducted over a five-year period during the George W. Bush Administration, using the Program Assessment Rating Tool (PART) to provide a common framework for rating performance and identifying weaknesses in program design, planning, and execution. Several concerns were raised about this process. For one, it sought to cover all budget accounts in the reviews, leading to a process that proved too burdensome for both budgeters and policy consumers. Another concern was the lack of a consistent definition of "programs." A provision of the GPRAMA requires OMB to inventory the Government’s programs, which it has done. GAO has properly criticized this effort for failing to impose a uniform definition of programs. However, the larger point is that for each objective there is a portfolio of federal law, regulation, policy, and programs, often including tax policies that constitute the set relevant for analysis, planning, and budgeting.
Goal and Strategy Setting and Review under GPRAMA

Current practice includes both stepping stones and obstacles to building a budget process focusing more attention on major policy objectives. Under GPRAMA, all federal agencies are required to undergo annual data-driven strategic reviews of strategic goals and objectives and use the results to inform policymaking, budget formulation, management strategies, and near-term agency actions, as well as preparation of the Annual Performance Plan and Annual Performance Report. The enhanced strategic goals focus under GPRAMA represents an emergent networked governance approach to achieve strategic objectives, largely managed by OMB, that is being overlaid on a traditional bureaucratic hierarchy, raising complicated issues of accountability, loyalty, incentives, legitimacy, communication, and conflict management.

The current GPRAMA process lacks explicit connection to budget process. Arguably, OMB missed an early opportunity in 2013 to leverage GPRAMA’s reformulated strategic planning requirements (see text box) and its authority in formulating the President’s budget to explicitly require that each agency specify all programs and authorities relevant to the achievement of its strategic goals and objectives and to consult with other agencies and non-federal partners in developing their plans to achieve both priority goals and strategic objectives. In this emerging network, OMB has delegated network management responsibility in most cases to agency leads for each objective, including the conduct of frequent (typically quarterly) performance reviews and annual “strategic reviews”.

Strategic Reviews under GPRAMA

In the 2015 President’s Budget, twenty-four agencies identified a total of over 90 two-year Agency Priority Goals, aligned with their strategic goals and objectives. Agency Priority Goals target areas where agency leaders want to achieve near-term performance acceleration through focused senior leadership attention. Many of these imply cross-agency strategic planning and implementation, including joint or coordinated actions of multiple federal programs and agencies, and in many cases as well of non-federal partners. The FY 2015 Budget also identified 15 “Cross-Agency Priority Goals,” to improve cross-agency coordination and best practice sharing around implementation of major policy objectives. The other eight Cross-Agency Priority Goals address several dimensions of management improvement.

In addition to the priority goals, agencies have specified over 100 strategic goals and over 300 strategic objectives (grouped under broader strategic goals) in their multi-year strategic plans, in most cases with associated metrics of outcome achievement, on their websites and on performance.gov. Agencies publicly identify goal leaders with accountability internally for each objective, including target achievement. Following the requirements of GPRAMA, a federal department or agency becomes the designated lead for each strategic objective and can be regarded as the network manager, accountable for performance to both the executive and Congress, and responsible for organizing action to achieve the objective. Although the boundaries of each network are not specified in advance, the nature of the federal government’s responsibilities, the networked nature of responsibilities for addressing any particular objective or problem, and the federal structure of U.S. government will require the lead agency, in most if not all cases, to coordinate not only with administrators of multiple programs in that agency but with program managers in other agencies, with other levels of government, and with non-governmental partners or stakeholders. In most cases, the designated goal leaders for priority goals are political appointees, but OMB recommends that deputy goal leaders be career senior executives to ensure continuity and “reach back” within the agency. OMB says that whoever is designated as a goal leader must be “authorized to coordinate across an agency or program to achieve progress on a goal.”

Strategic Reviews under GPRAMA, Continued

In each agency, a required annual Strategic Review process will attempt “to determine whether the agency programs or activities meet performance goals and objectives outlined in the agency performance plans.” The Strategic Review process helps agency leaders develop a broad foundation of evidence and data in order to prioritize policy and budgetary decision-making. It also enables agencies to clarify and articulate progress and challenges as well as a path forward for improvement and incentivizes communities to share learning and promising practices.1

OMB described the emerging process in the President’s FY 2015 Budget (OMB, Analytical Perspectives, 2014): “The Administration has set new Cross-Agency and Agency Priority Goals to further stimulate innovation, efficiency, and progress on key outcomes. . . . updated quarterly . . . . The strategic reviews will ensure there is a comprehensive framework in place at each agency to make strategic and budget decisions across the entire agency. The annual assessment will incorporate a variety of analytical, research, and evaluation methods to support outcome-oriented assessments, the results of which will inform the decision-making processes at the agency, as well as with OMB and the Congress. The assessment will also consider evaluation results, performance goals, and other indicators related to each strategic objective, as well as other challenges, risks, and external factors that may affect outcomes. . . . They will also increase understanding of the external influences and complexities of achieving outcomes across many organizational units and delivery partners. . . .”

OMB’s role is consistent with its broader responsibility as the President’s instrument for improving executive branch management and ensuring that both policy development and policy implementation are coordinated across the sometimes-arbitrary boundaries between executive departments and agencies. GPRAMA requires agencies to include in their quadrennial strategic plans a description of how they are working with other agencies as needed to achieve their strategic goals.

The annual budget process and strategic reviews provide recurring opportunities for building and sustaining networked strategies for goal achievement.14 OMB’s central role in the budget process provides perhaps the greatest opportunity to direct agencies’ attention to the need for collaborative, systemic approaches to budgeting and managing. A strategic portfolio budgeting approach would require that major resource decisions follow an intensive review of the full set of spending programs, tax expenditures, regulations, and other federal activities, as well as the actions of the federal government’s partners that constitute the government’s strategy – whether explicit or not – for achieving a given policy objective. There is no formal effort to specify which of these objectives are cross-agency, requiring collaboration and building a network for goal achievement, but it is clear that many are. Others are mainly in the purview of a single agency, but for a large cabinet department – for example, the Department of Homeland Security – similar issues of required joint action by multiple bureaus and program offices must be addressed through the development of collaborative arrangements. For example, the Department of Agriculture’s strategic objective to “assist rural communities to create prosperity so they are self-sustaining, repopulating, and economically thriving” would seem to require close collaboration both across Agriculture and with other Departments such as HUD, Labor, and Commerce administering programs that support regional and local community economic development as well as the Treasury Department in its tax policy role, given the potential use of tax incentives to steer and subsidize business development. In short, a large proportion of strategic objectives seem to call for building a cross-program, cross-agency network to plan and execute a coordinated strategy.

14 The law requires OMB to determine if an agency’s goals are not being met and, if so, to report to the agency head, government oversight committees of the Congress, and the Government Accountability Office (GAO). In the first year a goal is not met, the agency must submit a corrective plan and designate a senior official to oversee plans to improve performance for each unmet goal. If OMB determines that a goal is not met for a second year, the agency must report to Congress on plans to improve, including proposals to reprogram funding to meet the goal. If a goal is unmet after three years, OMB is mandated to submit to Congress recommendations for legislative changes and proposed executive action to address the failure, including possible termination or reduction “of the program” in the President’s budget. This review and report requirement presumes that performance is the responsibility of a single agency and its programs rather than a result of the combined efforts of multiple programs across more than one agency.
Since 2011, GAO has conducted annual program fragmentation, overlap, and duplication assessments for Congress. These provide another base of experience for planning and budgeting around major national policy objectives (cf., GAO 2014). These may be useful for identifying portfolios of programs related to a common objective. However, until now, the GAO reports have included insufficient analysis of mandated and actual relationships among programs and limited evidence on their joint or separate effectiveness. Tapping the implications of GAO’s work for budgeting will require the additional step of analyzing the effectiveness of both the individual programs and their interrelationships. Ultimately, it will be important to construct evidence-based logic models or systemic causal models capturing program interactions and their joint and separate effects on policy goal achievement.

Other Executive Agency Experience with Strategic Planning

Other building blocks of an alternative approach to budgeting can be found in some executive agencies’ experience with strategic planning and quadrennial reviews. These processes are more fully developed and more closely connected to budgeting in the national security and international affairs agencies and the National Security Council than in the domestic agencies. These agencies conduct quadrennial reviews that involve in-depth analysis of alternative scenarios in order to develop broad strategic guidance.

The Department of Homeland Security (DHS), for example, has now conducted two quadrennial reviews in addition to other strategic planning exercises (DHS 2014). The quadrennial reviews highlight the extent to which the homeland security missions and challenges presented there require partnerships with other federal agencies and with state and local governments and explicitly identify those partners. DHS’s latest strategic plan, released in early 2015, presents the Department’s strategic objectives, strategy, performance targets, and supporting management priorities as a roadmap for implementation of the broader missions and analysis of strategic challenges laid out in the quadrennial review. The current Secretary is attempting to unify decision-making and analysis within DHS to support policy and budgets. The latest DHS strategic plan describes a new multi-year “analytic agenda” modeled on the Department of Defense (DoD) “to build and institutionalize the necessary data, models, and underlying business processes to build a unified baseline for aiding decision-making across the Department (DHS 2015).” The same approach might be used beyond that Department’s boundary to unify the analytic efforts of all homeland security partners around each shared policy priority identified in the quadrennial review.

Much of the experience of the national and homeland security agencies in linking plans to budgets should be transferable to domestic agencies. We hypothesize that a major reason this has not occurred has been lack of clarity and urgency about mission and priorities in those agencies. Another obstacle may be quantifying the relationships between programs and funded activities and anticipated results; however, the burgeoning volume of program evaluation research and other analyses related to policy and budget decisions in recent years may help to overcome this limitation.

Although, all major departments and agencies are required under GPRAMA to prepare strategic plans, their current plans are in most cases largely descriptive of legislated missions and corresponding goals, reflecting only limited use of tools such as strategy mapping and scenario construction to specify causal linkages between funded activities and policies and desired policy outcomes. In a few cases, however, agencies have worked together to drive improvement based on explicit, evidence-based strategy. Here are two cases that suggest the current range of goal-focused planning and thinking in the executive branch and illustrate the extent to which these processes are linked to budgeting:

1. Strategic Planning and Budgeting for STEM Education Goal

In, 2013, the Obama Administration set a “cross-agency priority goal” to improve the quality of science, technology, engineering, and math education at all levels to help increase the number of well-prepared graduates with STEM degrees by one-third over the next 10 years, resulting in an additional 1 million graduates with STEM degrees.” It designated a program officer in NSF and deputy director in the Office of Science and Technology Policy as co-leaders of a 16-agency team to push toward this goal. At the same time, the Administration is implementing a five-year
strategic plan for strengthening STEM education mandated by Congress in 2013 and published in May 2013 by the President’s National Science and Technology Council (Committee on STEM Education, 2013). The cross-agency team’s 2013 fourth quarter update cited an extensive body of research in support of its strategy and the importance of the goal (cf., FY2013 Q4 Update, http://goals.performance.gov/content/science-technology-engineering-and-math-stem-education). The team is pursuing five specific strategies laid out in the Council’s five-year strategic plan, including identifying and implementing evidence-based practices to improve STEM teaching. The Administration’s FY2014 budget request included a proposal to consolidate and rationalize the program structure in support of STEM education by reducing the number of STEM programs spread across 14 agencies from 226 to 110 and would have increased combined funding by 6 percent. The team’s published update for the third quarter of FY2014 presented detailed work plans and indicators of but no measures of progress in achieving the numerical targets.

2. Planning and Budgeting to End Veterans Homelessness

A goal to end chronic homelessness in the U.S. was established in the federal budget during the George W. Bush Administration. Joint planning and coordination has been facilitated by a Cabinet-level 19-agency Interagency Council on Homelessness created by legislation in the 1980s with a small continuing appropriation and staff. In the budget process, joint reviews at OMB by staff responsible for funding in HUD, HHS, and other agencies led to a series of decisions to shift funding after 2003 to programs combining housing assistance and services to move homeless persons from streets or shelters into their own apartments. This “housing first” strategy was based on rigorous research showing that it is roughly cost neutral for the public sector as a whole and leads to lasting benefits to those housed; this evidence base was used in both the Bush and Obama Administrations to guide policy and funding (cf., Interagency Council on Homelessness, 2010, http://usich.gov/resources/uploads/asset_library/BkgrdPap_ChronicHomelessness.pdf). A rigorous method of counting this population was developed by an expert group led by civil servants and has been implemented nationally. In the Obama Administration, the interagency council on homelessness included the ambitious goals of “ending veterans homelessness and ending chronic homelessness by 2015” in its “Opening Doors” strategy “to prevent and end homelessness” published in 2010 (http://usich.gov/opening_doors/). Substantial increases in housing voucher assistance dedicated to helping homeless veterans have supported implementation. The goal of ending veteran’s homelessness was included in the first set of priority goals announced by the Obama Administration in 2009 and jointly pursued by the Department of Veterans Affairs and HUD through regular evidence-based reviews led by senior policy officials. The federal government’s strategy and funding priorities also helped mobilize parallel investments by many local and state governments. The Administration has been able to document a 30 percent reduction in chronic homelessness from 2007 to 2014 and a 33 percent reduction in veteran’s homelessness from 2010 to 2014.

These cases are so far exceptional, but they illustrate the practicality of building on current strategic planning and review procedures to support a goals-focused portfolio budgeting approach.

International Experience

The U.S. can build on the experiences of other OECD nations who have pursued more goal-focused and evidence-based approaches to developing budgets. The OECD (2014) distinguishes strategic reviews from other spending reviews that focus on the relative cost-effectiveness of programs with the same or similar objectives and on finding efficiency savings. While considering efficiencies, strategic reviews also ask what government should or should not do and what funding uses should have priority based on evidence of performance. They also are more likely than standard budget reviews to identify and assess alternatives to current programs and strategy.

A decade ago, GAO reviewed expenditure or program reviews of several countries that have elements of the strategic portfolio review approach described here (GAO 2005). In 1995 and 1996, Canada undertook
systematic reviews of its programs that yielded nearly $19 billion in savings over three years; it has since used similar techniques as described below. In the Netherlands, a system of “reconsideration reviews” in place since 1981 has selectively examined sets of programs each year, resulting in significant savings and major policy reforms (GAO 2005, 81-82). More recent experience in several countries suggests that various versions of this approach can yield sizeable budget savings and changes in policy direction (OECD 2011):

- Australia conducted 12 strategic reviews beginning in 2008, each led by a senior Finance Department officer and taking 4 to 6 months. Each year, a small number of strategic reviews of major programs and cross-agency themes, including tax expenditures and taking account of inter-generational considerations, was undertaken. Results were typically considered in the budget process but the reviews are not fully integrated into that process (OECD 2011, 12-14).

- In Canada, a Strategic Review process was established in 2007. The reviews were undertaken as part of the Treasury Board Secretariat’s dual role as budget office and management board. The process was applied to direct program spending and the operating costs of statutory programs; review results were feed into the annual budget process and announced in the annual budget. The Strategic Reviews have three aims: to ensure the efficient and effective delivery of departmental programs, that departmental spending programs align with the federal government core responsibilities and that departmental spending is aligned with the government’s key priorities. All reviews were to identify options for restructure and program redesign, and at least five percent of total spending must be freed for reallocation from the “lowest priority, lowest performing” programs to others (OECD 2011, 15).

- The Danish system of spending reviews operates in an annual cycle, with between 10 to 15 spending reviews conducted each year (although this has been as high as 34 reviews). They are typically brief and focused on a particular agency or program. For larger-scope reviews, external experts are engaged. Specific topics for strategic spending review are selected during the first stage of the annual budget process and led by the finance ministry. The current spending review processes in Denmark are informal. Recommendations are incorporated into the budget process on an ad hoc basis. As of 2011, there were no standard review processes to guide the selection of topics, conduct of reviews, who should be engaged in the process, or how recommendations that flow from the review should be disseminated or responded to in the budget process (OECD 2011, 17-18).

Parallel to the development of cross-cutting strategic spending reviews, advanced budgeting practices have extended the timeline over which the costs and benefits of national policies are estimated as part of budget decision-making. OECD’s working group of senior budget officials has codified best international budgeting practices based on lessons from studying budgeting in its member nations. Among these are that budgets “should be aligned with the medium-term strategic priorities of government” and that “long-term sustainability and other fiscal risks should be identified, assessed, and managed prudently (OECD Senior Budget Officials, 2014, pp. 1-6).” To align resource decisions with medium-term priorities while ensuring long-term sustainability requires closely linking planning and budgeting. A few nations have taken further steps to link long-term and medium-term policy planning to medium- and annual budgeting. For example, Finland has an established hierarchy of planning and decision-making built on a foresight process with a horizon of a decade or longer, then a development plan covering years 3 – 8, followed by a budget covering the next 1 – 2 years (OECD, 2012).

**The United States**

Some U.S. States have reorganized their budget procedures to give greater focus on desired policy outcomes:

- The State of Iowa, from 1993 until 2010, under both Republican and Democratic governors, implemented a series of strategic planning and budgeting requirements organized by broad policy priorities and including systems to measure cost and performance, to align and present
information by major policy objectives, and to develop the executive budget using a “budgeting for outcomes” process that was led by the governor’s office (NASBO 2014, 20-21).

• The State of Washington has been budgeting in a manner that focuses attention on priority policy goals and measured results for many years, under statutory requirements and under a succession of labels. GAO (2005, 81) Washington’s “Priorities of Government” approach was first used to address a looming budget shortfall in the 2003 – 2005 biennium reviewed and ranked programs relative to their contribution to 11 broad performance goals, resulting in cuts for programs ranked below the line of available revenues (GAO 2005, 81; NASBO 2014, 29-30). Under Governor Inslee, starting in 2013, the State’s system of goal setting, reviews, and performance measurement was relabeled “Results Washington” and increased the frequency of reviews, extending these from Cabinet agencies to include all state government services and functions (NASBO 2014, 30).

• For the 2014-2015 biennial budget, the State of Minnesota’s Management and Budget office, building on experience with strategic planning, performance measurement and reporting since the 1990s, developed an outcomes-focused framework for budgeting by specifying broad statewide goals such as “Minnesotans are healthy,” “Minnesotans have the education and skills needed to achieve their goals,” and so on as a cross-cutting framework, using a public ‘dashboard’ of indicators for each policy goal to track performance. However, at this stage the budget has not been reorganized around these goals and budgeting is still organized by legislative committees, agencies, in a program-activity format (NASBO 2014, 21-22).

In some ways, a few other governments and U.S. are ahead of the federal government. But, in other ways, given the GPRAMA framework and implementation and a strong commitment to evidence-based policy development and the use of evaluation research, the federal government is in a leading position. The experience of rating all federal programs using a common set of questions, i.e., the Program Assessment Rating Tool (PART) process between 2002 and 2008, provided a valuable base of experience -- including some cautionary lessons -- which the executive branch has drawn on. While the PART focus on rating individual programs was limiting, it helped set the stage for the crosscutting reviews of major sets of programs aimed at common goals selected by the Obama Administration with congressional consultation. GAO’s work for Congress on sets of potentially overlapping or duplicative programs provides another, complementary base of experience with analysis of relationships among programs related to common goals.

Steps toward Goal-Focused Policy Planning and Budgeting

Several steps can be taken in the immediate future to support a shift to portfolio budgeting for select major policy objectives, while retaining a streamlined version of the current budget development process for the remainder of the budget.

• Congressional-executive consultation – One important step would be to institutionalize a meaningful form of executive-congressional consultation each year on what are the most promising, ripe opportunities for break-through productivity gains and budget savings for a select set of major policy objectives. In addition to being mandated by GPRAMA, prior consultations with relevant congressional committees and leaders would increase the probability Congress would address at least some of the selected policy objectives in its own legislative and budget processes, taking advantage of the Administration’s work on alternative approaches to the extent it chooses.

• Planning and analytic tools – Another task is to encourage the extension of tools and approaches used for strategic planning and budgeting in the national security arena to other policy areas. The domestic agencies could be encouraged to use a standard set of analytical techniques to assess alternative strategies for goal achievement. They also could be encouraged to think more expansively about the array of policy instruments potentially available to accomplish their mandated missions, which might lead them toward stronger partnerships with other agencies and
other non-federal partners. Over time, this networked approach to policy development and implementation could build a more generalized set of managed relationships around crosscutting policy goals (Redburn 2014a).

- OMB role – OMB could assist directly by encouraging agencies to integrate the strategic reviews now conducted under GPRAMA requirements with their annual budget development procedures. OMB should encourage joint planning and budget development across agency boundaries wherever it is clear that multiple agencies share responsibility for a policy goal. In both cases, joint planning and budget preparation by the agencies would facilitate strategic budget reviews at OMB during its part of the budget process.

- Expert assistance – For the biggest, most complex policy challenges, the executive branch’s internal capacity could be augmented by enlisting institutions such as the National Academy of Sciences and the National Academy of Public Administration, both chartered by Congress to apply the best available scientific and practical expertise to advise on policy design and implementation. With proper lead time, these or other independent bodies could be asked to conduct independent reviews and provide evidence-based policy advice on alternative strategies to improve performance relative to major public objectives (Redburn 2014b).

Other steps would require more time and preparation. As part of the transition to a new two-track budgeting process in the executive, the multi-year budget framework of spending and revenue targets could be sorted by policy objective, changing the unit of analysis from program to strategy. New modes of analysis for strategic budget reviews could be developed and applied to budgeting for major policy objectives. New methods might be developed to estimate long-term public productivity gains in relation to these objectives.

- Changing the unit of analysis and decision – Budgeting by major policy objective and associated policy subsystems requires a reorganization of part of the information supporting executive budget development around the relevant portfolio of programs. This would enable analysts to model and estimate the combined and interactive benefits and costs of the associated policies and programs, including tax expenditures, and of alternatives to current policy and resource uses. Some will argue that this reorganization of information for decision may need to await advances in financial systems and budgetary accounting that align costs with outputs to support measures of cost-effectiveness. However, as illustrated by the cases cited, such precision in cost accounting is not particularly needed to support evidence-based judgments about the relative effectiveness of alternative strategies to reach a specific policy target.

- Changing the time frame of analysis and decision – Because major policy goals take years to achieve or even to show progress, the time frame for analysis of budget and policy alternatives has to be commensurately longer. As noted above, this linkage has been recognized in the advanced budget practices of some other nations. Budgeters need to compare alternatives by quantifying long-term return on near-term investments, net of social costs, estimating present value of long-term commitments or guarantees, both explicit and implicit, using alternative discount rates reflecting both actual financing costs and alternative value assumptions regarding intergenerational benefits and burdens. They will need decision rules for choosing the most promising long-term strategies and scoring short-term resource decisions that properly credit expected returns over a long horizon.

- Changing modes of analysis – To tackle big, wicked policy problems and achieve breakthrough gains in goal achievement requires the ability to model the behavior of complex systems, including demonstrated and hypothesized causal relationships, estimating nonlinearities and ‘black swan’ possibilities. New methods such as system mapping, multiple scenario analysis, and increased use of techniques such as options pricing to address uncertainty and risk would aid estimates of projected effects of policy alternatives. Sophisticated and varied policy scenarios might be developed and combined statistically to estimate their long-term fiscal effects relative to a baseline projection of current policies. Techniques sometimes referred to as “strategic
analytics” could build a bridge from long-range visioning and foresight exercises to practical questions of program design, management, and budgeting (cf., Davenport and Jarvenpaa 2008). Keenan et al. describe the use of structured scenario building by experts and stakeholders as a way to first explore alternative futures and their uncertainties and then, as a next step, to develop one or more visionary ‘success scenarios’ as a basis for planning.

For the U.S. federal government, such exercises would require first identifying key drivers of change in each policy area, as well as ‘megatrends’ likely to shape all future outcomes – demography and health, national security threats, environmental and energy limits and opportunities, and technological change, among others. Analysts would then systematically build plausible future states by combining drivers and policies based on an understanding of each policy problem’s causal dynamics and possibilities, assigning probabilities to various combinations. These constructions are neither fiction nor prediction, but are acts of structured imagination. Planning that starts with scenario building is completed by ‘backcasting’ from the future state envisioned some years ahead in order to specify practical steps and milestones that must be achieved to realize the vision (Keenan, et al., 2012, pp. 173-174). This step builds an analytical bridge to policy and budgeting. For each success scenario, the intermediate targets and the requirements to achieve them can be translated into policy and resources choices required in the near term to help realize the desired distant outcomes. For budgeting, the scenarios and their intermediate-term implications must be combined to take account of their interactions, their combined economic effects, and their ‘fit’ within a projected fiscal constraint. For the most part, such wide-scope, long horizon strategic thinking is well beyond the experience and capacities of today’s policy officials and budgeters. Therefore, its conduct on a recurring basis should itself be seen as a visionary scenario, to be realized in stages and over many years (Redburn, 2014b; Boston, 2014).

To support a two-track budget process that focuses more attention on budgeting for major policy goals and make room for annual strategic budget reviews, OMB staff responsibilities would need to shift. Successful implementation must redirect rather than add to workload and analytical effort. This would mean a streamlining of routine decision-making on programs not chosen for major policy reviews in a given period, i.e., the rest of the budget. Supporting the change to portfolio budgeting requires substantial organizational learning. Time and personnel policy initiatives can support training and hiring of staff with new skill sets.

OMB, has a particularly complex challenge to ensure that components of the appropriate networks are identified around each of the major policy objectives that cut across formal program boundaries and agency jurisdictions, that the network’s performance target(s) are clearly specified, that responsibility for the network’s effectiveness (whether collectively shared or personified in a leader or set of co-leaders) is understood by all, and that relationships within the network are characterized by effective collaboration and integration (Redburn 2014a).

Although we focus here on the executive branch’s part of the budget process, changes there would have implications for the congressional budget process. It would be wise for a new administration to engage with Congress as it begins such a reform. In addition to being mandated by GPRAMA, prior consultations with relevant congressional committees and leaders would increase the probability Congress would address some of the policy objectives selected for portfolio review in its own legislative and budget processes, taking advantage of the Administration’s work on alternatives to the extent it chooses.

If, over time, portfolio budgeting demonstrates it can yield better decisions, Congress may be inclined to use it as a template for complementary reforms. Congressional committees could participate in setting targets for policy and committing in advance to consider the recommendations of major portfolio reviews.

15 Illustrative examples can be found on the site of the Institute for Alternative Futures project on alternative futures of vulnerability and vulnerable populations in the U.S. in 2030 available at http://www.altfutures.org/vulnerability2030.
In its budget process, Congress could institutionalize parallel portfolio reviews within the budget resolution for selected policy goals. Should Congress move to a biennial budget process, as some have recommended, portfolio reviews could be directed by the budget committees in the off years. Such changes would become even more feasible if the budget committees were strengthened to become instruments of House and Senate leadership in setting priorities and shaping the annual budget process.

To take full advantage of a more strategic approach to budgeting for major policy goals, Congress may want to change the required content of the annual congressional budget resolution to include multi-year performance targets alongside spending and revenue targets for major policy objectives. These amounts need not correspond with those proposed by the President, but having the Administration’s proposals as a starting point would certainly facilitate parallel restructuring of the way resource allocations are approached in developing the congressional budget resolution. 16

**Conclusion**

The change in approach and process reforms described above has the potential to unlock major gains in public sector productivity and social returns by refocusing the energies of those involved in developing and enacting the budget toward the biggest policy goals and societal challenges. Persuading those responsible for the federal budget process that this is the case is part of a larger political challenge facing reformers: building support for a process that gives greater attention to longer-term, systemic choices and increases discipline and accountability in the near term to support sustainable, responsible fiscal policies over the long term.

The proposed changes build on a growing base of experience with interagency strategic planning and coordinated pursuit of priority goals. The changes can be introduced gradually. For the executive branch, these do not require new legislative authority and are therefore more feasible. Moreover, the executive branch is a good place to start the change to more goal-focused, strategic budgeting because the President’s budget sets the stage for Congress’ part of the process.

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16 To provide a broad envelope for budgeting, the budget resolution and subsequent reconciliation act also could include a medium-term fiscal framework setting spending and revenue levels consistent with long-term fiscal stability and, within those overall levels, specific limits for functional categories, including both spending and tax expenditures. The medium term would provide a constraining four- or five-year planning envelope, now an accepted international standard for budgeting, within which more detailed spending and revenue decisions would be made.


