Using Performance Measures for Federal Budgeting: Proposals and Prospects

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The political system, the popular press, and the public have recently been concerned about measuring government performance. This concern for measuring performance should imply a concern for measuring it correctly. With this in mind, the Congressional Budget Office (CBO) recently conducted an analysis of the use of performance measures in the budget process. The study attempts to review the issues raised by performance budgeting in the context of past and current efforts to link performance measures and budgeting. This article focuses on two portions of that study: The status of the current federal performance measurement efforts and specific observations designed to inject a note of caution into the current debate about performance measurement and budgeting.

The political system, the popular press, and the public seem to have discovered an issue that the public administration community has been aware of for a long time—the measurement of government performance. Whether it is the best-seller status of *Reinventing Government*, the current legislative and executive efforts to put performance measurement into practice, or the call from the citizenry to "get more" out of government, the handwriting is on the wall. Much of this concern focuses explicitly or implicitly on the budget process and desires that funds be allocated based on the results of government programs.

It is, of course, hard to argue against measuring government performance. But achieving something that is desirable is not necessarily easy. A concern for measuring government performance should imply a concern for measuring it right for two reasons. First, using the wrong measures could badly misinform policymakers. Second, an already beleaguered and often-maligned bureaucracy should not be required to produce data on performance if the political system has neither the capacity to use it nor the interest in doing so. If we use the wrong measures, or require them without

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planning to use them, the end result may be worse than if we had not emphasized performance measurement at all.

With these concerns in mind, the Congressional Budget Office (CBO) recently conducted an analysis of the use of performance measures in the budget process. The study attempts to review the issues raised by performance budgeting in the context of past and current efforts to link performance measures and budgeting.[1] This article is based on portions of that study. First, I will review the status of the current federal performance measurement efforts. Second, I will make specific observations designed to inject a note of caution into the current debate about performance measurement and budgeting.

A SURVEY OF THE CURRENT PERFORMANCE MEASUREMENT LANDSCAPE IN THE FEDERAL GOVERNMENT

Why review performance measurement in the federal government now? Mainly because recent events have focused attention on the measurement of performance by federal agencies and the feasibility of applying those measures to the federal budget process. These efforts have one thing in common: the reasonable notion that federal agencies should be able to develop measures of program success and that these measurements would be useful to managers and other policymakers. At least three separate efforts are proceeding in that direction: the application of federal financial management reforms; the recent passage of legislation covering performance measurement; and the inception of an effort (embodied primarily in Vice-President Gore's performance review) to review the operation of the executive branch.

The Chief Financial Officers Act

The Chief Financial Officers Act (P.L. 101–576) became law in 1990. It established the deputy director for management at OMB as the chief financial officer of the federal government and installed chief financial officers (CFOs) in twenty-three of the largest federal agencies. The Act's primary purpose is to improve federal financial management. But the Act also includes a provision that explicitly addresses performance measures. This provision requires agency CFOs to develop "systematic measures of performance" for programs in their agencies. It also instructs CFOs "to prepare and submit to the agency head timely reports" and requires that financial statements "shall reflect results of operations." In none of these cases, however, does the Act or the legislative history elaborate on how the Congress expects agencies to respond to this provision. Subsequently, the Office of Management and Budget (OMB) has instructed agency CFOs to prepare performance measures for fiscal year 1992 financial reports which were submitted to OMB on March 31, 1993.[2]

Legislation Focusing on Performance Measurement

The Congress has also turned its attention to performance measurement. Several congressional committees have held hearings or issued reports on performance measurement or federal management in general or on problems existing in particular agencies. In addition, many authorizing committees include performance targets in reauthorization bills. This concern for measuring performance ultimately led to the introduction of several pieces of legislation to mandate the development of performance measures and their use in the budget process. One of these bills, S. 20, passed the Senate on October 1, 1992; it was reintroduced (as S. 20 in the Senate and H.R. 826 in the House) in the 103rd Congress. S. 20 ultimately passed both the Senate and House, and was signed into law by President Clinton on August 3, 1993.[3] The bill includes requirements for strategic planning, annual performance planning and reporting, and managerial flexibility. It also defines a series of pilot projects as tests for changes, such as performance budgeting and managerial flexibility.

Strategic Planning. S. 20 requires each agency to develop a strategic plan for activities under its jurisdiction. The first of these plans should be submitted to the Office of Management and Budget by September 30, 1997. Plans should cover at least a five-year period. Strategic plans are to include a comprehensive mission statement, a set of general goals of objectives for the program(s), and a list of any factors outside of the agency that may affect achievement of those goals and objectives. Virtually all agencies are covered by this requirement.

Annual Performance Planning and Reporting. Beginning with fiscal year 1999, the budget for the U.S. government will, under this legislation, include a performance plan. These plans will includes performance goals and indicators (quantitative, where possible) enabling the Congress and the public to gauge whether goals have been complied with. Agencies will be required to submit specific performance plans, on a schedule to be determined by OMB, covering the major activities for which each agency is responsible.

In addition to this information reported in the budget, beginning in fiscal year 1999 each agency will be required to submit program performance reports to the Congress. The first of these are to be submitted no later than March 31, 2000. These reports should include information comparing actual with planned performance, a discussion of the success in meeting goals and remedial action if the goals were not met.

Managerial Accountability and Flexibility Waivers. Agencies will be authorized under the bill to ask OMB for waivers of nonstatutory procedural requirements. The purpose of these waivers is to remove impediments to agency managers, who will be held more accountable for results in exchange for the removal of administrative regulations constraining their actions. These might include waivers of nonstatutory personnel policies or spending restrictions.

Pilot Projects. Several sets of pilot projects will be established by the legislation. These will include pilot tests for developing performance goals, which will operate in at least ten agencies for three years, beginning in fiscal year 1994. The OMB director is required to report on the results of these pilots by May 1, 1997.

A second set of pilot projects will test the concept of managerial flexibility. These will operate for two years beginning in fiscal year 1995; the May 1, 1997 OMB report would include a discussion of these as well.

Third, the bill mandates pilot projects for performance budgeting. Performance budgets should present varying levels of performance resulting from different budgeted levels. At least five agencies are required to participate in these pilot projects, which would run for fiscal years 1998 and 1999. The director of OMB will report on the results of the performance budgeting pilots no later than March 31, 2001.[4]

Executive Branch Proposals

It has been suggested that, in addition to carrying out the Chief Financial Officers Act, the executive branch should fundamentally change the way that federal services are provided and that federal budgeting should be similarly altered. The "Reinventing Government" movement (after a book of the same title) is the most popular manifestation of the general effort toward management improvement.[5] The book relied primarily on examples from state and local government in calling for changes in the way government agencies are managed.

David Osborne, one of the authors of *Reinventing Government,* subsequently wrote a chapter for the Progressive Policy Institute's book *Mandate for Change,* which attempted to advise the incoming Clinton administration about the reforms necessary to bring the reinventing government movement to the federal government.[6] Osborne's chapter called for establishing a performance-based budgeting system for the federal government, which would replace an emphasis on line item control with an emphasis on holding managers accountable for results; develop performance measures for federal programs; and budget on the basis of performance targets, rewarding agencies that exceed those targets. In short, the Congress would loosen its control over inputs and would be guided by program outcomes. This shift to performance-based budgeting would be financed by setting 1 percent of the funds for each program aside to finance the development of performance measures (the strategy could represent billions of dollars a year). The book also calls for an overhaul of the civil service system, sunset provisions for federal programs, and more "future-oriented" budgeting.

Building on the reinventing government theme, President Clinton announced on March 3, 1993 that Vice-President Gore would coordinate a review of all federal agencies. This six-month study, called the National Performance Review (NPR), was to identify current federal activities that could be discontinued and will recommend changes in the way particular federal programs are managed. Part of the charge of this review was to develop a recommendation for carrying out "mission-driven, results oriented budgeting." The goals of this effort closely mirror those identified in the *Mandate for Change* chapter. In general, the focus is on shifting the emphasis of budgeting away from line items and spending money toward a concentration on results and saving money.

The National Performance Review issued its final report on September 7, 1993.[7] As expected, this report called for a move toward budgeting based on results. The following two recommendations focused on the use of performance measures in the budget process:

- S. 20 should be fully implemented, and each cabinet officer and agency head should articulate a strategic plan, as required by the legislation. OMB should require all agencies (whether they are pilots under S. 20 or not) to develop performance measures, and performance objectives and results should be made key elements in budget and management reviews. The report encourages the use of outcome measures for budgeting. Specifically, it instructs OMB to begin incorporating performance objectives and results into the budget process, beginning with the process for fiscal year 1996. It is not specific concerning the way that these measures are expected to influence resource allocation.
- Performance agreements should be negotiated between the president and agency heads, and between agency heads and other managers, that focus on the results that the agency (or program) is expected to achieve. Agencies should, according to the report, "gradually build performance information into their own budget guidance and review procedures." The report stresses the necessity of developing clear goals in order to effectively carry out the process of holding managers accountable for outcomes.

The NPR report seems to acknowledge that the conversion of federal budgeting from an input orientation to a focus on results may take some time. But the ultimate objective is similar to that of Osborne—a federal budget process that focuses on the outcomes flowing out of public programs, rather that on the dollars flowing in.

NOTES OF CAUTION IN MEASURING GOVERNMENT PERFORMANCE AND APPLYING THE MEASURES TO THE BUDGET

The road to improving federal performance and tying its measurement to the budget process is studded with obstacles. Current practice and past experience provide insights that may be useful in understanding the prospects for performance measurement and performance budgeting in the federal government. Those who advocate improving the measurement of government performance first need to consider the complexity of the endeavor. Creating yet another set of reporting requirements without an understanding of the complexity involved in measuring government performance and in using performance measures for budgeting runs the risk of poisoning an otherwise promising effort.

With this in mind, we should proceed cautiously. In the remainder of this article, I will discuss several conclusions of the CBO study that are relevant to the design and implementation of performance measurement systems in the federal government.

- The difficulty in agreeing on objectives and priorities of agencies is an enduring obstacle to performance measurement, and this problem is perhaps particularly acute in the federal government.

- Even where objectives and priorities can be agreed upon, developing the measures themselves is challenging.
- Local and state governments have had limited successes in using performance measures beyond the individual agency level, particularly for budgeting.
- Past federal efforts to link performance to budgeting were not successful, and repetition of these mistakes should be avoided.
- Since federal agencies currently use performance measures for only limited purposes, which rarely include budgeting, the task is a challenging one. In particular, responsibilities vary widely from agency to agency; therefore, it is important not to treat the federal government as a monolithic entity.
- Any performance measurement effort must confront the issue of the appropriate combination of executive and legislative branch action.
- The pace of reform may be an important factor in its potential for success. The complexity of the endeavor suggests that a deliberate approach is better than adopting a set of uniform, and immediate, requirements for all federal agencies.
- It is important to understand how performance measures might influence the budget process, which requires understanding their limitations.

It is Often Difficult to Agree on Objectives

The ability to measure performance is inextricably related to a statement of what an agency or program is trying to accomplish. The task of clarifying those goals is much more difficult for public-sector agencies than for private corporations. Public-sector agencies operate in an environment in which they are usually asked to respond to many actors, including legislative bodies, elected executives, and the general public. Not all of these actors agree on the objectives of the agency or program. For example, there is often disagreement about whether a program should be managed in a way that promotes efficiency (minimizing costs per unit of output) as a primary objective, or whether it should operate primarily to provide equal access to services to as many citizens as possible, with cost as a secondary concern. Both are legitimate goals, but they often conflict.

Because objectives in the public sector are open to debate and interpretation, one of the greatest obstacles to federal performance measurement involves agreement between and within the Congress or the executive branch, and with other significant actors, on what the objectives of the agency are. A program may also have multiple objectives, but there may be disagreement about their relative importance. Developing consensus, though difficult, is an essential step in developing a meaningful system for measuring performance. It is impossible to design systems to measure the performance of public-sector programs without clearly understanding what the program is trying to accomplish. If a program's objectives cannot be determined, performance measures will always be ambiguous, if not superfluous. In fact, developing the consensus necessary to pass legislation may impede agreement on goals by promoting multiple goals that are poorly defined.

Performance measurement systems seem to have worked best for two forms of government: on the local level, the council/manager forms of local government, such as Dayton, Ohio, and Sunnyvale, California; and on the national level, governments with parliamentary systems, such as New Zealand and Great Britain. In both cases, the development of goals and the setting of objectives crucial to the generation of meaningful measures are encouraged by a concentration of political power in only one branch of government. City managers report directly to city councils, and the government in parliamentary systems is the party in power. The result is clear signals from political leaders to line agencies. In state governments with both a strong legislature and strong governor and in the United States national government, the political system has not promoted agreement on goals, particularly when the branches are controlled by different political parties.

Problems Exist in Developing Measures of Program Results

Many agencies concentrate on measures of workload or activity since (even where agreement on agency goals is possible) it is often difficult to develop measures for the ultimate results of a program. Outcome measures are particularly difficult to address because it is hard to find acceptable measures of the achievement of a policy's objectives that are under the control of program managers.

For example, the ultimate policy objective for a job training program may be to reduce long-term unemployment through providing people with job skills. Because many other factors affect unemployment, it is very difficult to determine the policy or program's effect. A measure of some intermediate activity (that is, one that is under the control of program managers) may therefore be necessary. In the case of an unemployment program, such measures have usually focused on how many program participants are placed in jobs. But since this measure is not directly related to the program's effect on long-term unemployment, this kind of measure will necessarily be imperfect.

Many effects that are beyond the control of program designers and agency managers influence outcomes. For example, citizens sometimes assist in delivering government services. This is often referred to as "coproduction" and encompasses such activities as participation in parent-teacher organizations and recycling waste products. To the extent that these factors that are external to public agencies can influence outcomes, the direct "production" of the agency will misstate the effect of its policies. Because of the difficulty in determining the cause of outcomes, some people advocate that government should focus only on outputs.[8] Whether that is practical may well depend on how many factors are beyond the control of program managers and whether they can themselves be identified and controlled for. Even where outcomes are not a measure of program success, they may still be important as indicators of broader societal trends.

Local and State Governments Have Had Limited Success

Much of the impetus for performance-based budgeting comes from those who believe that it has been successfully applied in local and state governments, and therefore that the concept should be used by the U.S. government. CBO reviewed these experiences in general and specifically through selected case studies. In addition to using work done by the General Accounting Office (GAO) and other researchers, CBO made site visits to four local governments (Dayton, Ohio; Charlotte, North Carolina; St. Petersburg, Florida; and Portland, Oregon) and two state governments (Florida and Oregon) that are currently engaged in efforts to expand their use of performance measurement.

Although all of the units of government studied use some form of performance measures, most are focused on the activities of agencies rather than on results. In general, the conclusions suggest little evidence of the much-touted advances in performance-based budgeting in local, state, and foreign governments. Performance measures have a limited ability to influence resource allocation but benefit management and financial reporting. State government success stories in performance budgeting are particularly difficult to find, a fact that may be related to the relative newness of state performance measurement. Neither the CBO visits to Florida and Oregon sites nor in-depth studies by the GAO of five other states identified any effect on the allocation of resources by the government in any state currently using performance measures.[9] At all levels of government, however, performance measures are used in individual agencies to influence the use of resources and are a valuable management tool. Further, the Governmental Accounting Standards' Board (GASB) has influenced some governments to expand the use of performance measures for financial reporting.[10]

Past Efforts to Link Performance Measures and Budgeting Were Not Successful

The current effort to improve the linkage of performance measurement and budgeting is a logical successor to three similar attempts by the federal government during the past forty years, namely performance budgeting, the planning-programming-budgeting-system (also known as PPBS), and zero-based budgeting (ZBB). At least two of these (PPBS and ZBB) attempted to budget on the basis of program results. In general, these systems fell short of their goals. In particular, the substantial effort that went into these systems failed to change the way federal resources were allocated.

The designers of each of these reforms tried to mandate a solution to federal budgeting and management by linking the budget to intended outcomes. Several important lessons emerged from their failures. First, such budgeting systems may prove antithetical to traditional incremental budgeting, and they might be resisted by those who have some stake in the process that is already in place. Second, it is important, if such efforts are to succeed, to reach agreement on goals and objectives and to involve key staff who will be putting the system into effect. Third, each of the systems required a great deal of data in order to survive. Much of the data were never used, which suggests that it is necessary to think through precisely how information will be used and how systems will be put into effect before setting out requirements. If the designers of future budget systems do not take into account the difficulties of tying the measurement of outcomes and budgeting, no system is likely to deliver on its promise.[11]

Current Federal Efforts Suggest Few Measures of Results or Ties to Budgeting

Before assessing the possible effect of changing federal agency practice and tying measuring performance to the budget, it is important to understand what federal agencies are doing today. CBO visited six agencies to gather additional information on performance measurement: the Environmental Protection Agency, the Internal Revenue Service, the Department of Labor's Employment and Training Administration, the Farmers Home Administration, the Department of Defense (internal service activities), and the Public Health Service's Healthy People 2000 program.

In general, the results of these case studies were consistent with the experiences of state and local governments. In the current setting, it is extremely difficult for agencies to link their performance measures and the budget process in any meaningful way. None of the agencies studied used performance measurement to make decisions about the level of resources that the program obtained in the budget process, although some intended to do so in the future. Certainly performance measurement is used in some cases to award money to employees or subunits, but the basic aspects of agency budgets are not determined by the relationship between inputs and outcomes.

Even in these six programs, which are widely regarded as some of the best examples of federal performance measurement, gauges of outcome are relatively rare. The measures of job retention used by the Employment and Training Administration to evaluate the Job Training Partnership Act program may be the most effective, but even this measure is relatively brief (assessing results thirteen weeks after the training has ended) and does not provide data on the marginal impact that this program has in the long run.

The federal government engages in a wide variety of activities, and each suggests different challenges for the measurement of performance. There are several classifications of government activities, but a useful one is included in the *Budget of the United States Government: Fiscal Year 1994*.[12] This classification compares the outlays of the federal government in five categories: direct benefit payments for individuals (46 percent of estimated outlays for fiscal year 1993); national defense (20 percent); grants to states and localities (15 percent); net interest (14 percent); and other federal operations, including deposit insurance (7 percent). Of these categories, only net interest seems completely inappropriate for performance measurement. The characteristics of programs in each of the other categories, however, indicate that very different strategies would be needed in order to measure their performance.

Direct payments for individuals are used primarily by three programs—Social Security, Medicare, and Medicaid. These programs provide services to clients; therefore, the task of developing performance measures would probably focus on the quality with which these services were provided and the satisfaction of those who receive them. For example, measures of performance in the Social Security program would include the timeliness of check issuance and the error rates of checks (whether they were received by the correct recipients). Surveys of client satisfaction are also useful in determining the quality of direct services.

National defense is a particularly difficult area for which to develop measures of ultimate performance, perhaps because it is almost impossible to determine, without some military conflict, whether the objective of national defense is being achieved. Measurement is further complicated by the concept, as some would argue, that the purpose of defense is not winning wars but preventing them. For this reason, many measures of performance for national defense often focus on the quality and readiness of military forces, assuming that a well-qualified, appropriately trained military can best achieve whatever goals are paramount at the moment.

Grants to states and localities vary in purpose and form: that is, some are distributed by formula, and others are provided at the discretion of the administering agency. The ways in which they are administered, however, make it difficult to measure the performance of these programs. Many federal grant programs are administered at the state or local level, meaning that their success is only partially under federal control. Determining performance for these programs, therefore, involves understanding the nature of their administration both in Washington and at the recipient level, as well as their goals and purposes.

Other federal operations encompass a wide range of governmental activities, including law enforcement, central management and administration, and regulatory activities. Determining performance is highly dependent on the specific nature of the activity. For law enforcement, measures of success may include the percentage of crimes solved. For an agency such as the Internal Revenue Service, measurement might focus on the dollars collected or the extent of taxpayer compliance. For a regulatory activity, success depends in large part on the companion regulatory activities of state and local governments and on the response of regulated organizations. Thus, it is difficult to link federal action and ultimate results.

The main point is that the ease with which performance measures can be developed and the ability of these measurements to inform decisionmakers differs from program to program. In general, developing measures of success (or at least satisfaction) may be easier for programs in which there is direct interaction between the federal government and some recipient of government service than for programs in which goals are less clear (such as national defense) or in which achievement is controlled by many different factors (such as grants to state and local governments). As a practical matter, the federal government should not be treated as a monolithic entity, implying that similar solutions exist to all problems. Instead, any search for performance measures should be activity-specific.

Legislation is Likely to Have More Limited Effects Than Executive Activity

If performance measurement is to gain renewed currency for either management or budgeting, it is important to understand the appropriate combination of legislative and executive activity. This entails understanding how each is limited in bringing about lasting changes. As previously indicated, states have had more difficulty than local governments in interesting legislative bodies in performance measurement. This lack of interest may derive in part from the nature of state government organization. Like the federal government, state legislative and executive branches are both more separated and more fragmented than those of local or foreign governments. Second—and related—passing laws is not enough; without executive branch commitment, any management effort is doomed to fail.

Nonetheless, there are several potential benefits to passing legislation. First, federal legislation can motivate the executive branch or particular agencies to pursue changes that they might not pursue unilaterally. Second, if increased managerial flexibility is desirable, and if changes in law are necessary to provide this flexibility, the Congress can enact them. Third, laws can suggest particular kinds of information that the Congress would consider desirable for decision making. Fourth, the Congress can suggest areas for executive branch study or testing in anticipation of more sweeping legislation in the future.

Legislation has its limitations, however. Ultimately, without executive branch commitment to performance measures for agency management, the practice will not gain widespread acceptance. Further improving the use of performance measures for financial management, financial reporting, or budgeting implies commitment from both executive branch budget offices (in agencies and OMB) and commitment from the committees in the Congress that must change their behavior. Not the least of these behavioral changes will involve a switch from emphasizing front-end, micro-level inputs to emphasizing the big picture—the results obtained from public programs.

A Deliberate Approach May be Most Desirable

Performance measurement is limited in its ability to bring about substantial change. Some of these factors have nothing to do with either the limits of legislation or executive branch commitment, but simply with the difficulty of measuring government performance itself. Designing systems that appropriately link the goals of programs with their results and that link results to budgeting and financial reporting is an extraordinarily complex task. The case studies included in the CBO study illustrate that the greatest obstacle of using performance measures lies in first agreeing on objectives and identifying measures. This is true at the local and state levels, but is particularly true for the federal government, where the success of so many programs is influenced by other actors, including state and local governments, private businesses, and individuals. While it is hard to disagree with the goal of improving the measurement of government performance, there is a danger in acting precipitously. That is, past experience with PPBS and other reforms suggests that it can be counterproductive to install far-reaching reforms without a fairly complete understanding of their effects.

The pilot projects included in S. 20 represent examples of the type of deliberate approach needed for deciding whether to carry out a far-reaching performance measurement system. One approach to decision making in this instance would be to use pilot projects to collect information on costs and potential benefits before adopting such a system throughout the government. It is important that these pilots include agencies that represent the full spectrum of federal activities since failure to do so may result in invalid conclusions. Furthermore, pilots should not be limited to those agencies that already have systems in place or even those with easily quantifiable measures. In fact, it is most important to include those agencies in which it is difficult to identify measurable objectives. National defense and research and development are two examples. Regulatory or intergovernmental activities—in which it would be difficult to sort out the effects of federal efforts, as opposed to state, local, or private initiatives—are another.

A final comment about the limitations of performance measures to provide quick and reliable information on program success concerns the relationship between performance measurement and program evaluation. Performance measures should not be viewed as ends in themselves. In most cases, they can only offer clues about how well a program is achieving its results. In many cases, a comprehensive evaluation of a program is necessary in order to determine whether it is operating successfully. As an example, determining the extent to which graduates of a job training program have been placed or have retained jobs does not offer conclusive evidence of the success or failure of the program. For that reason, it is necessary to understand the limitations of performance measures and interpret them accordingly.

Substantial Limits Exist to Using Performance Measurement for Budgeting

Even more difficult than measuring public sector performance is finding a way to apply these performance measures to the allocation or management of resources in the public sector. It is difficult to disagree with the concept of budgeting based on performance. But the experience of other levels of government suggest limited success. Neither the case studies presented in this analysis nor those discussed in the report issued by the General Accounting Office last year uncovered examples in which performance measures had significantly influenced the allocation of resources.[13] There is little evidence that policymakers use performance measures to help them make large changes in budgets or that they receive detailed information on the relationship between resources and outcomes. Where performance measurement has taken hold in the budget process—in some state and local governments, for example—agency managers tend to use measurements to manage their budgets. Thus, performance measures are used much more extensively in budget execution process than in budget preparation.

The fact that performance-based budgeting has not gained widespread acceptance is not reason enough to discount its potential. But even if both legislative and executive branches were committed to it and a genuine effort was undertaken to transform government budgeting, it is not clear how performance measures should be used to allocate resources. For example, one cannot simply reward those agencies whose measures indicate "good" performance and take resources away from those whose measures indicate "bad" performance. A thorough understanding of all of the factors (*including* the level of funding) that contribute to negative or positive performance is necessary before we can begin to understand how performance measures can be used to allocate resources.

Furthermore, performance measures seldom make the task of choosing between different uses of public resources easier. Ultimately, if every program had performance measures, policymakers could understand the tradeoffs inherent in spending money on two competing programs. For example, if the choice were between a job training and an air pollution program, we might know that adding $100 million more to the EPA budget would make the air cleaner by X amount, while costing Y amount of lost wages from workers who had not been trained. If we had all of these data (and we believed them), that would make decisions more informed; it would not necessarily make the choices easier.

Budgeting based on performance flies in the face of existing budgeting practice. A system that affords less control over individual line items in order to hold agencies solely accountable for results would be a fundamental change from the current system. Such a system could not resolve the issue of how much money goes to the defense budget and how much goes to domestic spending solely by using performance measures. Budgeting, in a democratic society, is inherently political. No set of budget techniques can substitute for political decisions about "who wins" and "who loses." In fact, the failures of past efforts, such as PPBS, are largely the result of an inability to account for this shortcoming.

The limited potential of performance measures to influence budget outcomes directly, however, does not mean that they have no place in the budget process. Performance measures can be used to assist agencies in the management of a relatively fixed level of resources. For example, an agency's total funding level may be fairly stable, but it may use a performance measurement system to allocate funds among geographic or functional subunits. Performance measures can also be used to present information on the relationship between inputs and outcomes. This would define for policymakers the relationship between given levels of inputs and the results expected from them. For example, the Internal Revenue Service might present information on how much faster it could process income tax refunds given additional increments of funding. It should be emphasized, however, that it is one thing to present such information to decisionmakers, but it is quite another for them to use it.

If performance measures are to be used to influence the allocation of resources, the change is not likely to happen suddenly. Rather, it may be the result of a culture change that starts with the development of better, valid, performance information at the agency level, and with the reporting of that information for nonbudgetary purposes. Once this information is in the public domain, it is entirely possible that it will be more accepted and eventually used by decisionmakers for informing the allocation of resources. If this has the effect of forcing some spending to face greater scrutiny, it certainly is desirable.

The more attempts are made to tie performance measures to the budget, the more important it is to use the right measurements and collect accurate information. But the higher the stakes are, the greater incentives are for people to identify self-serving measures and report misleading data. Without a process of ensuring that the right measures are chosen and reported accurately, performance measurement will never deliver on its promise. When performance measures become only a more sophisticated means of agency budget justification, they cease to be a useful policy making tool. The obvious implication is that verifying the accuracy of reported data is an essential part of the measurement process.

CONCLUSION

The limited potential, in the short run, for performance measures to influence the allocation of resources should not discourage the Congress and the executive branch from continuing to concentrate more resolutely on the results of public programs. In fact, the greatest reward to be gained from the use of performance measures may have little to do with government-wide budgeting at all, but with the task of using existing resources to improve performance. For example, performance measures can be useful as motivational tools; that is, they can encourage people to achieve performance targets. Ultimately, repeated use and exposure can result in the development of a culture of performance. Performance targets may not be precisely correct at first and the measurements may not be either. But encouraging federal managers and employees to think in terms of outcomes rather than inputs or outputs will produce desirable results. Because the measurements will not be right at first, one must be realistic about how much they can be used to influence budgeting in the near term. In short, improving agency performance measurement (because agencies should increase their ability to get the measures right over time) should precede using those measures for budgeting.

Ultimately, the budget process is not likely to be changed substantially until and unless decisionmakers use information on program performance when making allocation decisions. Having this information—if good measures can be developed of program results—is a necessary, but not sufficient, prerequisite to changing the policy process. This change is likely only to occur after the "culture" of performance measurement infiltrates the policy process. For this reason, the short-run emphasis should remain with the development of performance measures for agency management rather than for use as a resource allocation tool.

NOTES

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1. Congressional Budget Office, *Using Performance Measures in the Federal Budget Process* (July 1993).
2. See L.R. Jones and Jerry McCaffery, "Implementation of the CFO Act," *Public Budgeting and Finance*, 13, 1 (Spring 1993), pp. 68–86.
3. The legislative history is as follows. On October 3, 1990, Senator William Roth introduced S. 3154, the Federal Program Performance Standards and Goals Act of 1990. No action was taken on this bill in the 101st Congress, and it was reintroduced as S. 20 at the beginning of the 102nd Congress. Two separate hearings were held by the Senate Committee on Governmental Affairs, and a committee-reported substitute bill was passed by the Senate on October 1, 1992. Several other bills aimed at mandating performance measures were introduced in the 102nd Congress as well. During the 103rd Congress, the Roth bill was reintroduced (again as S. 20); an almost identical bill (H.R. 826) was introduced in the House by Government Operations Committee Chairman John Conyers. Both the Senate Committee on Governmental Affairs and the Government Operations Committee held hearings on performance measurement legislation in the 103rd Congress, and each committee reported bills (to the full House and full Senate, respectively) in that Congress. On May 25, 1993, H.R. 826 passed the full House by unanimous consent. S. 20 passed the full Senate by unanimous consent on June 23, 1993. On July 15, 1993, the House agreed to pass S. 20. It was signed into law by President Clinton (Public Law 103–62) on August 3, 1993.
4. For additional details, see Senator William V. Roth, Jr., "Performance-Based Budgeting to Enhance Implementation of the CFO Act," *Public Budgeting and Finance*, 12, 4 (Winter 1992), pp. 102–106; and L.R. Jones, "Nine Reasons Why the CFO Act May Not Achieve its Objectives," *Public Budgeting and Finance*, 13, 4 (Spring 1993), pp. 87–94.
5. David Osborne and Ted Gaebler, *Reinventing Government* (Reading, Mass.: Addison-Wesley, 1992).
6. David Osborne, "Reinventing Government: Creating an Entrepreneurial Federal Establishment," in Will Marshall and Martin Schram, eds., *Mandate for Change* (Washington, D.C.: Progressive Policy Institute, 1993).
7. *Creating a Government That Works Better and Costs Less*, Report of the National Performance Review (Washington: U.S. Government Printing Office, 1993).
8 See Charles T. Clotfelter, "The Private Life of Public Economics," *Southern Economic Journal*, 59, 3 (1993), p. 587.
9. General Accounting Office, *Performance Budgeting: State Experience and Implications for the Federal Government*, GAO/AFMD-93–41 (February 1993).
10. *Service Efforts and Accomplishments Reporting: Its Time Has Come, An Overview*, Harry P. Hatry, and other eds., Governmental Accounting Standards Board, (1990).
11. See the discussion of "The Politics of Budget Reform" in Aaron Wildavsky's *The New Politics of the Budgetary Process*, (Glenview, IL: Scott, Foresman, 1988), pp. 411–420. For a very good post-mortem on PPBS, see Allen Schick, "A Death in the Bureaucracy: The Demise of Federal PPB," *Public Administration Review*, 33, 2 (March/April 1973), 146–156.
12. Executive Office of the President, Office of Management and Budget, *Budget of the United States Government: Fiscal Year 1994* (Washington, U.S. Government Printing Office, 1993).
13. General Accounting Office, *Performance Budgeting.*