Beyond Performance Reports: Comprehensive Accountability

Performance and Accountability Reports provide information on agencies' outcomes and expenditures. The outcomes covered are those that flow from the agencies' activities, and the associated costs are budgetary expenditures. Comprehensive accountability requires a broader reckoning of costs and consequences. It also requires that decision makers actually use the information to guide the government's management, design, and budget decisions.

Comprehensive Accounting for Outcomes and Costs

Expenditures are only one way federal agencies achieve outcomes. The federal government also affects resource allocation in the economy through tax policy and regulation.[11] The performance sections of agency reports likely include the effects of regulation, but the financial section includes neither the costs of tax expenditures nor the full costs of regulation. Comprehensive accountability requires a full accounting of the costs and consequences of tax and regulatory policies, as well as on-budget spending.

Tax Expenditures

In addition to on-budget spending, the federal government also seeks to influence outcomes through various targeted tax policies that reduce revenues, such as the exclusion of employer-provided health insurance from income, the home mortgage interest deduction, and the child tax credit. Agencies do not report directly on the outcomes associated with these tax expenditures. Tax expenditures are not explicitly mentioned in GPRA, but the report on GPRA from the Senate Governmental Affairs Committee indicates that the committee expected the Office of Management and Budget to take the lead in assessing the outcomes associated with them.[12]

The "Analytical Perspectives" volume of the fiscal 2008 budget presents an informative discussion of inputs, outputs, and outcomes from tax expenditures and suggests how the results of various categories of tax expenditures could be measured.[13] Some of the more insightful ideas include:

[11] U.S. Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2007*, "Analytical Perspectives" (Washington, DC, 2006): 324.

[12] The Report notes:

> To increase significantly the oversight and analysis of tax expenditures, the Committee believes that the annual overall Federal Government performance plans should include a schedule for periodically assessing the effects of specific tax expenditures in achieving performance goals. (This schedule would be in addition to the primary content of the overall plan—the program performance goals tied to the direct expenditure of funds.) The Committee expects that annual performance reports would subsequently be used to report on these tax expenditure assessments. These assessments should consider the relationship and interactions between spending programs and related tax expenditures. The Committee hopes that such reports will foster a greater sense of responsibility for tax expenditures with a direct bearing on substantial missions and goals. *See* S. Rep. No. 103-58, pp. 27-28.

[13] *Budget of the United States Government, Fiscal Year 2007*, "Analytical Perspectives," 324-26.

- measuring the effects of tax expenditures on health insurance by assessing the effects of this tax expenditure on insurance coverage and then assessing how insurance coverage affects health outcomes, such as infant mortality or life expectancy;
- considering tax preferences for military benefits along with direct budget costs when making decisions about defense programs;
- evaluating tax expenditures targeted to particular types of investments (such as research, housing, and energy) by estimating their effects on the cost of capital, the additional amount of investment they create, and the public benefits created by that investment;
- comparing the results of tax expenditures intended to promote community development or higher education with the results of other programs, such as loans and grants, that have the same goal; and
- measuring the effects of tax expenditures related to retirement savings by estimating their effect on retirement incomes, private savings, and national savings.

The volume does not present actual outcome measures or data. It pledges that OMB and Treasury will develop data over the next several years.

The fiscal 2008 budget contains estimates of each tax expenditure for fiscal 2006.[14] Some tax expenditures are quite substantial compared to related federal spending. Deductibility of home mortgage interest, for example, cost $68.3 billion in fiscal 2006—more than HUD's entire $39.6 billion net cost of operations. Exclusion of pension and retirement savings contributions and earnings (such as corporate government and corporate pensions, 403(b)s, and IRAs) cost $104 billion, equal to nearly one-fifth of the Social Security Administration's expenditures. Similarly, tax expenditures related to education totaled $22.8 billion, equal to about one-quarter of the Education Department's budget. Favored tax treatment for medical insurance and medical expenses cost $133 billion—equal to more than 20 percent of HHS expenditures.

The mere fact that something is a tax expenditure, and hence reduces federal revenues, does not automatically mean that it is good or bad tax policy. Similarly, tax credits or deductions are not inherently a more effective or less effective means of accomplishing the desired outcome. Good information on outcomes would help policy makers determine whether favored tax treatment or direct federal expenditures most effectively accomplish various public goals, such as promoting home ownership, retirement security, education, and economic growth.

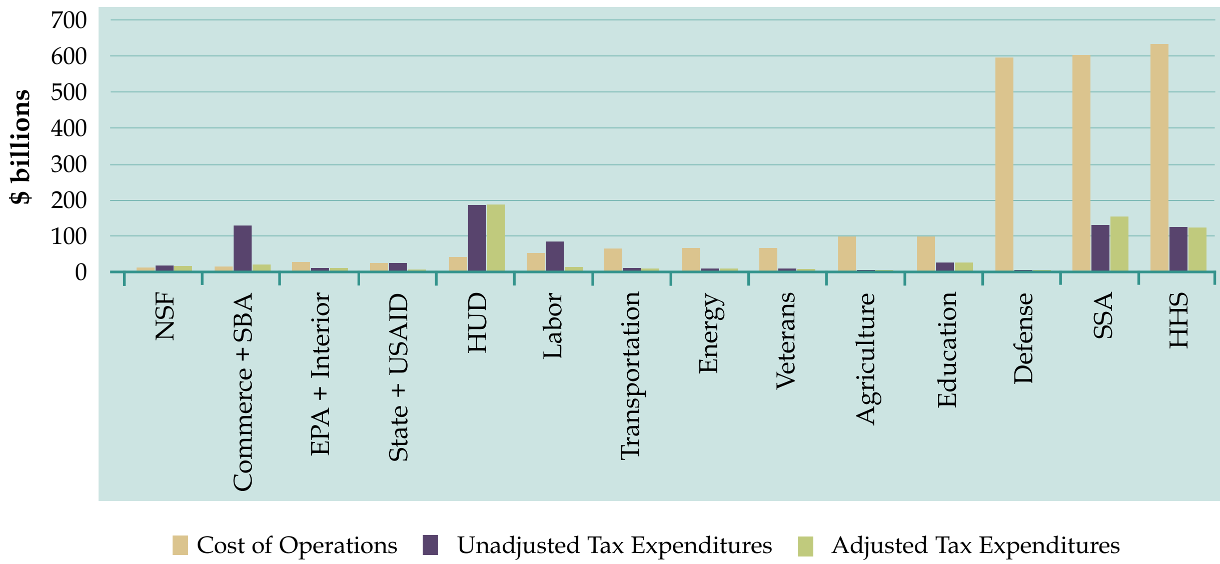
Figure 11 compares agency spending with tax expenditures that appear to be related to that agency's outcomes. The "Unadjusted" numbers are largely the same as the tax expenditures by budget function that

[14] U.S. Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2008*, "Analytical Perspectives," (Washington, DC, 2007) Table 19-1.

[15] One principal difference is that we allocated items under Community and Regional Development (lines 84-90) in Table 19-1 of Analytical Perspectives to whichever budget function seemed to make the most sense. For example, Line 85, Exclusion of interest for airport, dock, and similar bonds, was allocated to Transportation. The other principal difference is that tax expenditures related to Income Security (lines 131-150) are included in the total of tax expenditures related to Social Security since the bulk of these tax expenditures are related to retirement plans and income security.

appear in Table 19-1 of the budget's "Analytical Perspectives" volume.[15] The "Adjusted" numbers alter four agencies' figures to add or remove large items that arguably align the totals more closely with the outcomes for which the relevant agency is responsible.[16]

Figure 11: Spending vs. Outcome-Related Tax Expenditures



[16] Adjustments are as follows:

COMMERCE + SBA: Exclude items related to tax treatment of capital gains (lines 67-70, $79 billion) and depreciation (lines 72-74, $40.5 billion). These items arguably aim at outcomes more generally related to economic growth than the specific outcomes for which Commerce and SBA are responsible.

STATE + USAID: Exclude items related to international tax policy (lines 4-7, $19.6 billion). Remaining tax expenditures involve tax treatment of federal employees abroad—arguably a cost of executing U.S. foreign and aid policies.

LABOR: Exclude child tax credit (line 114, $30.4 billion) and deductibility of charitable contributions other than education and health (line 117, $37 billion). While these items are related to the size of skill level of the labor force, they are arguably aimed at more general outcomes related to tax or social policy than the outcomes for which Labor is responsible.

SOCIAL SECURITY: Add exclusion of interest on life insurance savings (line 50, $19.4 billion) since life insurance is obviously related to income security and many people use life insurance as a tax-deferred retirement savings vehicle.

Some tax expenditures are larger than the budgets of agencies with related outcomes. These include the tax expenditures related to science, business, and housing. Others are large in an absolute sense and equal to a noticeable fraction of the related agency's budget. These are the tax expenditures related to education, income security, and health. Performance and accountability reports are unlikely to provide a comprehensive picture of either costs or outcomes in these areas.

Other tax expenditures are small relative to the total federal budget and to the budget of the related agency. These include tax expenditures related to environment and natural resources, foreign affairs, training, employment, transportation, energy, veterans, agriculture, and defense. The federal government accomplishes most of its outcomes in these areas through direct spending or regulation. Some agencies are not even in the graph, because there appear to be no significant tax expenditures obviously related to their missions. These are OPM, GSA, NRC, NASA, Justice, Homeland Security, and Treasury.[17] Performance and accountability reports should be expected to provide comprehensive accountability for outcomes in these areas, but cost disclosure may be incomplete unless the reports include the costs associated with regulation.

The budget chapter containing the tax expenditure estimates cautions that adding up the estimates of various tax expenditures may not create an accurate picture of their size or effects, since a simple summation ignores economic incentive effects and interactions by which the size or existence of one tax expenditure may affect the size of others.[18] Though inexact, adding up the estimates does suit our purpose of providing a rough estimate of the amount of resource allocation the federal government accomplishes through tax expenditures. Tax expenditures totaled $847 billion in fiscal 2006.[19] The tax expenditure chapter of the budget indicates that data are not yet good enough to assess outcomes. Therefore, tax expenditures represent a very large additional avenue of federal resource allocation for which disclosure of outcomes is currently poor.

Regulation

Another way the federal government seeks to achieve outcomes is through regulation. Regulation compels or influences consumers, businesses, and other levels of government to expend resources in various ways. The costs of regulation are substantial, often far exceeding the expenditures the agencies incur to promulgate and enforce them. The most recent estimate suggests that compliance with federal regulations costs approximately

[17] Some substantial tax expenditures that are more related to general tax policy, such as the child tax credit, taxation of capital gains, depreciation, and deductibility of state and local income taxes, could arguably be related to Treasury's tax policy mission. In that case, Treasury would join the list of agencies whose related tax expenditures exceed their spending.

[18] "An important assumption underlying each tax expenditure estimate reported below is that other parts of the tax code remain unchanged. The estimates would be different if tax expenditures were changed simultaneously because of potential interactions among provisions. For that reason, this chapter does not present an estimated grand total of the tax expenditures." *Budget of the United States Government, Fiscal Year 2008*, "Analytical Perspectives," 285. A more detailed discussion appears on page 286.

[19] *Budget of the United States Government, Fiscal Year 2007*, "Analytical Perspectives," Table 19-1.

$1.1 trillion—nearly half as large as the $2.5 trillion in non-interest federal spending.[20] The agencies' performance and accountability reports document many of the outcomes associated with regulation, but not the costs borne by consumers, businesses, and other levels of government. Nevertheless, an agency that engages in a lot of regulation but relatively little spending might direct substantial social resources toward achievement of the outcomes for which it is responsible.

Total

The sum of non-interest spending, tax expenditures, and regulatory costs totaled $4.45 trillion in fiscal 2006, as Table 4 shows. That's equal to 33.6 percent of U.S. gross domestic product in 2006.[21] Tax expenditures and regulatory costs together equal 78 percent of the $2.5 trillion in non-interest spending.

Table 4: Overall State of Accountability, Fiscal 2006

Agencies' non-interest net cost of operations	$2.5 trillion
Estimated tax expenditures	$847 billion
Cost of regulation	$1.1 trillion
Total	$4.45 trillion
Amount of spending in reports scoring 36+	$337 billion (7.6% of total)

Tax expenditures and regulatory costs appear nowhere in agencies' performance and accountability reports. The Senate Government Affairs Committee's report on GPRA gives the Office of Management and Budget responsibility for evaluating the costs and results of tax expenditures.[22] Agencies evaluate the costs of major regulations when they are proposed, and each year OMB's Office of Information and Regulatory Affairs com-

[20] W. Mark Crain, "The Impact of Regulatory Costs on Small Firms," Report Prepared for the Office of Advocacy, U.S. Small Business Administration, RFP No. SBHQ-03-M- 0522 (Sept. 2005): 1, http://www.sba.gov/advo/research/rs264tot.pdf.

[21] Gross domestic product figure of $13.248 trillion is from *Budget of the United States Government, Fiscal Year 2008*, Analytical Perspectives, Table 12-1.

[22] See note 12 above.

piles these estimates for the previous ten years. However, this report presumes that outcomes and costs were correctly predicted when the agency adopted each regulation. It does not offer ex-post evaluation of actual outcomes or actual costs.

As a result, federal accountability would have serious deficiencies even if every agency achieved a high score on this Scorecard. Comprehensive accountability requires full analysis of the costs, outcomes, and consequences of spending, tax expenditures, and regulation. Comprehensive disclosure will require that some entity in the federal government take responsibility for integrating information from these diverse sources. Whether that is done by the executive branch or Congress is less important than ensuring that someone in the government actually does it.

Toward Performance-Based Decision Making

Effective accountability requires that both the executive branch and Congress actually use performance information to make budget decisions. The executive branch has taken a key step toward performance-based budgeting by creating the Program Assessment Rating Tool (PART). PART assesses the design, management, and performance of individual programs.

One aspect of PART ratings sheds light on the quality of performance measurement for individual programs. If a program lacks sufficient measures or data to evaluate whether it is accomplishing intended results, it receives a rating of Results Not Demonstrated. This does not mean the program has failed to produce results; it means insufficient measures or data are available to determine whether the program is accomplishing its statutory goals. In effect, Results Not Demonstrated is similar to a financial audit that renders a disclaimer, wherein the auditor cannot find sufficient competent evidence to verify items in the financial statements.

A Results Not Demonstrated rating for a program can also be somewhat analogous to a low score in the public benefits section of this Scorecard. Our public benefits criteria examine whether a report expresses goals and measures as outcomes, demonstrates how the agency's actions have affected the outcomes, and links outcomes to costs to permit an evaluation of cost-effectiveness. PART seeks to develop similar measures and data. OMB data on PART ratings and budget authority for programs can be used to calculate the number of programs and percent of the federal budget for which OMB believes performance information is insufficient. This calculation is analogous to our calculation of the percent of the budget covered by reports that received poor scores on our public benefits criteria.

PARTed programs account for about $2.3 trillion in fiscal 2006 spending, compared to total expenditures of about $2.66 trillion.[23] About 5.5 percent of PARTed programs, accounting for about $128 billion in spending, received a Results Not Demonstrated rating in their most recent PART evaluation.[24]

[23] These two figures are somewhat different measures of federal spending. Spending on PART programs is fiscal 2006 budget authority. Our measure of non-interest expenditures is fiscal 2006 outlays, from *Budget of the United States Government, Fiscal Year 2008,* "Historical Tables," 78, Table 4.1.

[24] Authors' calculations based on OMB PART data, http://www.whitehouse.gov/omb/budget/fy2008/sheets/part.xls.

A Results Not Demonstrated rating might be analogous to a total score of 8 or below on our four public benefits criteria. This is the score a report would receive if it averaged a 2, "unsatisfactory," on each of the four criteria. A score of 8 or below on the public benefits criteria suggests that disclosure and documentation of outcomes and cost-effectiveness are substantially incomplete. Seven agencies, representing $1.96 trillion in federal spending in fiscal 2004, scored 8 or below on the public benefits section. Several large agencies' reports received an 8, but reports covering $687 billion worth of spending received less than 8. Thus, reports with substantially incomplete disclosure of outcomes and cost-effectiveness account for a very large share of federal non-interest spending.

Several factors might explain this large difference between our assessment and OMB's assessment of the quality of outcome information. Perhaps OMB is more lenient in its view of what constitutes adequate results information. In addition, our research team and OMB are examining measures at different levels of aggregation. An agency could have quite good outcome information for some of its large programs and yet still score poorly on our public benefits criteria if many strategic goals and performance measures are not outcome-oriented.

PART may be having some effect on budget decisions. In fiscal 2006, programs rated Results Not Demonstrated or Ineffective were less likely to receive spending increases than other programs. Appropriations increased for 34 percent of programs rated Results Not Demonstrated and 18 percent of programs rated Ineffective. Fifty-nine percent of programs rated Effective received increases in funding. Conversely, 42 percent of Results Not Demonstrated programs and 79 percent of Ineffective programs received

Table 5: Lower PART Scores Increased Odds of Budget Cuts in Fiscal 2006

	Results not Demonstrated	Ineffective	Adequate	Mod. Effective	Effective
Appropriations Increase	64 programs (34%)	5 programs (18%)	104 programs (47%)	122 programs (53%)	73 programs (59%)
No Change	47 programs (25%)	1 program (4%)	29 programs (13%)	28 programs (12%)	6 programs (5%)
Appropriations Decrease	80 programs (42%)	22 programs (79%)	86 programs (39%)	81 programs (35%)	45 programs (36%)

Source: Eileen Norcross and Kyle McKenzie, "An Analysis of the Office of Management and Budget's Program Assessment Rating Tool (PART) for Fiscal Year 2007," (working paper, Mercatus Center at George Mason University, May 2006): 24,
http://www.mercatus.org/repository/docLib/20060831_20060605_mc_gap_partpaper07.pdf.

less funding in fiscal 2006 than in fiscal 2005. Though the correlation is suggestive, much more detailed analysis would be necessary to determine whether performance information affected budget decisions in any category of programs.

Whither Accountability?

"Everyone is entitled to his own opinion, but not his own facts."

— Sen. Daniel Patrick Moynihan

Since 1993, federal employees have done yeoman's work defining outcomes and measures. Some are even close to linking results with costs. While the agencies' performance and accountability reports have not all improved as fast as we had hoped, the improvements are real and tangible.

Effective accountability requires that agencies present full, concise, relevant, accurate, and reliable disclosure of the benefits created for the public, as well as the costs of producing those benefits. Disclosure of goals, outcomes, and costs should not be controversial. In fact, bipartisan majorities passed GPRA in Congress.

Similarly, the idea of using this information to make budget and program decisions should not be controversial. Indeed, there is little alternative if government decisions are genuinely to advance the public interest. If policy makers do not know what results a program is supposed to accomplish, whether the program accomplishes those results, and what alternatives were forgone to produce the results, they are flying blind.

Nevertheless, many congressional oversight and appropriations committees have shown scant interest in using the performance information to make decisions on program design and budgeting. Republicans and Democrats, liberals and conservatives, may rightfully disagree based on values, priorities, or honestly different assessments of whether particular results are worth the cost. But surely they could muster a bipartisan consensus to examine the performance information before they decide.