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Integrating Evaluation and Budgeting

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The budget is the only reasonably comprehensive framework available in which to make decisions about what government should be doing, and how. Program evaluation is one of the few sources of potentially reliable information available on what government is doing, and how well. Logically, the two should have something to do with each other. Unfortunately, there is little evidence of such a connection. The purpose of this paper is first to offer some observations about the causes of this situation and then to suggest some courses of action which might alter it.

The concept of budgeting as a means of deciding how to allocate resources has a long history. In this country, however, at least at the Federal level, the idea of an integrated central budget process is a relatively recent innovation, dating to the 1921 Budget and Accounting Act. Its evolution from an expenditure control process to a policy formulation process is even more recent, being an outgrowth of the movement of the Budget Bureau from Treasury to the Executive Office of the President under Roosevelt. The full potential of this role (both positive and negative) only became apparent in the

Program Evaluation, too, is a relatively recent innovation. The underlying concepts have been evolving for some time in the research methods of the social and physical sciences.

But, again, this movement emerged only in the 1960's as a broad-based institutionalized application of these research methods for the purpose of answering decision-relevant questions about public programs and policies.

There was an early recognition of the potential value of linking these two developments, a policy-focused budget process and a decision-relevant research methodology. We called it the Planning-Programming-Budgeting System, or PPBS for short. Originated in DOD under MacNamara in the early 1960's, PPBS was mandated for application throughout the executive branch by 1966. It was one of the early casualities of the incoming Nixon Administration. There has been substantial literature examining its demise, but otherwise PPBS has largely disappeared from the vocabulary.

In itself, that would be no great loss. Unfortunately, however, nothing has come along to replace it as an expression of the concept of integrating analytical and evaluative information with the budget process. The concept disappeared from discussion as soon as the clearly flawed approach to implementing it was written off. Subsequent efforts to strengthen the budget and related policy processes (MBO and ZBB) have moved in a markedly different direction, one which tends to minimize the role of systematic analysis in the budget process.

MBO focused on the achievement of specified objectives. To the extent that these were program-related, and many were not, they focused attention on outputs, rather than the relationship between resources and outputs. The result was a dichotomy between a budget process, which determined resource levels, and an MBO process, which established process or output objectives, largely independent of resource allocation decisions.

In some degree, ZBB can be seen as a move back in the direction of integrating resource allocations with output levels. Each ZBB decision package was supposed to reveal the output that could be obtained with various levels of budget resources. In principle, this relationship could have been based on evaluative data and thus could have been an excellent vehicle for integrating evaluation with the budget process. Indeed, there were rhetorical nods in that direction.

It was quickly apparent, however, that the rhetorical interest in analytical support for the budget process did not carry much weight in the design of the ZBB system. The number of decision units, the necessary rapidity of decision and the frequency of the decision cycle could not help overwhelming the existing process, to say nothing of attempting to link it to other, inherently slower, analytical processes. The adjustments made to adapt ZBB to reality moved the process even farther from this potential analytical link. The number of alternatives was reduced and, in some agencies, major segments were excused from the ZBB process. This may have succeeded in reducing the number of separate decisions to manageable proportions, but it certainly did nothing for the analytical content of the remaining decisions.

It is too early to be sure what adjustments to the budget process will be made by the administration of President Reagan. Early indications (based on experience in the Spring of 1981) indicate a dramatic increase in the President's willingness to commit the political power of his office to the enactment of his budget, and a remarkable success in doing so. The policies represented by that set of budget proposals involved a sharp departure from the recent past. Within the executive branch, however, the process by which the policies were translated into specific budget proposals appears relatively traditional in nature (albeit very compressed and accelerated in timing). Whether this traditional orientation to the process (as distinct from the content) of budget formulation will continue is difficult to predict, but given the propensity of recent administrations to invent new ways of handling the budget, and the high visibility of the budget at this time, it seems likely that some changes will be made. One hopes that such changes will grow out of a careful assessment of the real strengths and weaknesses of the system rather than a mechanistic application of techniques which, whatever their value in another environment, have ultimately added little to the policy process in Washington.

The real strength of a unified budget process lies in its awesome power to force decisions on the allocation of scarce resources. That strength, of course, is under constant attack from those who see themselves as potential losers in the trade-off among programs. The attackers pursue any of a number of avenues to escape from this process (off-budget status, use of guaranteed loans, back-door spending, etc.). These attacks must be a source of continuing concern and must be periodically fended off, lest the central strength of the process be dissipated.

Assuming that the strength of a unified and centralized budget process can be maintained, however, there is a need to consider seriously how to remedy its several notable weaknesses. Among these is the absence of a credible analytical base of information for making the tradeoff decisions which lie at the heart of the process. Specifically, what the process lacks is precisely what PPBS sought, unsuccessfully, to provide. What is needed is a flow of analytic information which reaches decision makers at the time and in the form best suited to support them in making resource allocations and other policy judgments.

Efforts to accomplish this linkage have thus far failed because of a series of impediments. These impediments fall into several categories. Once identified, it should be possible to assess whether or not they can be overcome, and if so, how.

Organizational Structure

One evident impediment lies in the fact that those in an operating agency who are charged with the function of evaluation and analysis are commonly housed in an organizational entity which is separate from those charged with resource allocation. The evaluation function is commonly a separate unit in executive branch agencies, often with its own Assistant Secretary. When linked to another unit, the partner is most commonly the research function.

Budgeting, on the other hand, is traditionally viewed as an adjunct of administration or finance and is most commonly housed under the Assistant Secretary for Administration. Organizational separation of this sort automatically creates impediments to communications. Sometimes it yields unhealthy competition and conflict. In the best circumstances, however, there is a tendency for the separate units to develop independent agendas, each responsive to its own view of what is important, and when. Even the most sincere desire to be mutually supportive will be frustrated when conflicting agendas produce a situation in which one unit has little of value to provide the other.

Conflicting Perceptions of Time

In the Federal Government, the budget process functions on a rigid annual cycle. The decisions associated with it are (at least in the executive branch budget formulation process) equally rigidly fixed in time. The budget must be submitted to the Congress each year at a particular time. Once that is given, the decisions leading up to the submission must occur on a very rigid schedule, and the material required for making those decisions must be developed and supplied on a similarly rigid schedule.

Tolerable slippages in the process are measured in days, not weeks or months. If a decision point is missed, there is a high probability that material prepared for that decision will be irrelevant until the cycle reaches that point a year later. At that point, there is a substantial risk that the material will be viewed as dated and thus will be significantly discounted in the decision process. In the rigid schedule of the budget process, time is a constant. Decisions must be made at a particular time. Thus, they will be made, and they will be based on whatever information is available at that time.

The evaluation function, on the other hand, tends to operate with a very different view of time. The schedule is usually determined by the question being examined and by the resources available for addressing it. These factors, together with a relatively fixed concept of professionally acceptable standards of validity and precision in the results, establish the time required to complete the evaluation task. However, evaluators are rarely able to predict the time requirements with confidence because of the many unknowable problems which will emerge in the process of carrying out the evaluation. Slippages of months, or even years may well be considered tolerable, provided the final product meets acceptable levels of quality.

Different Intellectual Frameworks

There are some noteworthy similarities between budgeteers and evaluators. Both groups tend to have above average intelligence, both view their mission as being to make government work better and both see that mission being carried out by influencing decisions on program policy and operations.

On closer examination, however, these similarities rapidly give way to striking differences in the fundamental intellectual framework of the two groups. Budgeteers view their role as helping to manage the day-to-day operations of the organization of which they are a part. The budget process forces concentration on the immediate--decisions which must be made today, problems which can be solved this year. These immediate concerns are too large in number and too difficult in substance to afford most budgeteers either the time or inclination to worry about longer term issues which do not have to be addressed today and toward the solution of which, today's action would make, at best, only a marginal contribution. The budgeteer, in other words, frequently sees his function as being to help manage the chaos.

The evaluator, on the other hand, has his intellectual roots in the research community. As the budgeteer can be seen as kin to the corporate chief operating officer, the evaluator is kin to the academic researcher. The research paradigm presses the evaluator in two directions which often contribute to other difficulties. One is the pursuit of the elusive ideal of absolute truth. The experienced evaluator recognizes the impossibility of reaching that goal, but retains it as the goal toward which he should strive. The other pressure of the research paradigm, derivative of the first, is to isolate the phenomenon being examined from surrounding events which might otherwise contaminate the evaluation results.

What to do?

There are undoubtedly other important factors contributing to the inability to integrate evaluation and budgeting. Lest the agenda of problems become so long as to be intolerable, however, it seems reasonable to turn at this point to the question of what can be done to overcome the impediments we have already defined. Of these three, organizational structure would seem, on the surface, the easiest to handle.

When problems arise because functions are housed in separate organizational units, the simple, direct and traditional answer is to combine them in a single organizational unit. That may well be the appropriate answer in this case. In some places where it has been tried (e.g., the Department of Education), it seems to have been at least somewhat successful. But one can also anticipate problems with such an approach.

In the policy apparatus of a major agency, individual functions are rarely related to other functions in a uniquely bilateral fashion. Rather, each function is related in important ways to almost every other function. Evaluation, for example, is (or should be) related to budgeting. But it is equally true that it is (or should be) related to a number of other functions. It is related to the research function because it may, itself, be a research activity and because it should participate in setting the agenda for the other parts of the research process. It should be related to the legislative development function because it is a source of ideas for that process and because that process is the most likely avenue for achieving the fundamental program changes often identified in the evaluation process. It should also be related to the non-budgeting aspects of the administrative management function, because administrative processes are frequently the subject of evaluation or the source of problems identified during the evaluation of a program.

Thus, organizational linkage of related functions may or may not be the appropriate solution to the impediment created by organizational separation. It should be considered, if only because it is an obvious alternative. If it becomes evident that organizational linkage would create more problems than it would solve, however, other avenues should be explored. One of these might well be a reconsideration of the process and structure by which the budget is formulated within the agency.

Traditionally, the budget process in a civilian operating agency is dominated by the budget office. Often, the agency budget officer has established such control over the process and such an intimate working relationship with the agency head as to hold a virtual monopoly over the information which reaches the agency head concerning the budget. In extreme cases, other agency officials enter the process only as supplicants, seeking resources for their own activities. To some degree, this is understandable when the only stake these other officials have in the process is their own budgets. It is less defensible, however, when one acknowledges, first, that budget formulation relates at least as much to policy formulation as to the allocation of resources and, second, that many of these other officials (such as those representing the program evaluation function) have a great deal to contribute to the policy formulation process.

This suggests the possibility of a different context within which the budget process can be viewed. This would be an integrated policy formulation process in which budgeting, the development of legislative proposals, and the consideration of major regulatory and administrative actions would be seen as various facets of a single process. Various officials in an agency would be in a position to contribute to the process, but none (other than the agency head or his deputy) should be in a position to dominate it.

With this concept of a policy formulation process, of which the budget process is an integral part, it is much easier to see it being managed in a more collegial fashion. If all those having a legitimate role in an integrated policy process actually participate in the management of that process, organizational separation becomes a much less serious impediment. Indeed, from the agency head's perspective, it could become a valued attribute, since it would permit a diversity of information flowing from independent sources with varying perspectives, each with some established base of credibility. This contrasts with the present situation, in which there is some risk that a single perspective, that of the budget officer, may come to dominate the entire policy process by controlling the flow of information and analysis.

Making such an integrated process work obviously requires more than instructing people to cooperate. One of the essential ingredients is that it be led by someone with the time, commitment, understanding and stature to keep it from disintegrating into bureaucratic warfare. In cases where the agency head or his deputy is able to and interested in focusing on policy formulation and broad management, this sort of integrated process may tend to develop naturally. Given other demands on these officials time, however, this happens rather infrequently. Nowhere, to the best of my knowledge, has it been institutionalized to the point of surviving the replacement of those who created it.

The basic approach could be extended to OMB. There, the integrated policy process would need to involve the budget divisions, the legislative clearance staff, the program evaluation staff and other components of the management side. It might also allow more effective and orderly integration of other elements of the Executive Office, such as the Domestic Policy staff, the NSC staff, the CEA and OSTP.

Reconciling Different Perceptions of Time

As with organizational separation, there is a simple--and probably wrong--answer to the problem of conflicting perceptions of time. Given the rigidity of the schedule for the budget, it is tempting to say that the problem would disappear if only evaluators would learn how to do their work faster. No doubt this is true; no doubt there are elements of the evaluation process which could be accelerated.

But this sort of tinkering (e.g., cutting the time required to write a report) will not begin to close the gap between what the budget process now demands and what evaluators are now capable of providing. The nature of the budget process forces those involved in it to demand virtually instantaneous response. The Reagan rewrite of the Carter budget for fiscal year 1982, accomplished in a month or so, exemplifies this situation. In these circumstances, budgeteers have no alternative to operating on the basis of information which is readily at hand. To ask evaluators to supply new information within the time frames of such a process is to ask them to throw away precisely those characteristics which make evaluation valuable--the careful, deliberate collection and analysis of data.

One way of beginning to shorten the evaluation lag is to build evaluation data requirements into the plans for implementing a program. It is obviously not possible to anticipate all the possible data requirements necessary to respond to all possible evaluation questions. Indeed, it would be a waste of resources to attempt such a voluminous data collection effort on every program. It should be possible, however, to design a monitoring system which is adequate to provide current, reliable information on certain key evaluative variables which are likely to be of continuing interest.

This sort of monitoring system should be developed as a joint effort between the budgeteers, the evaluators, and the policy development staff. The budgeteers should contribute knowledge of the key questions which are likely to arise on a continuing basis during the annual funding debate. The policy staff should contribute knowledge of the issues likely to arise in connection with the periodic reauthorization or legislative amendment process. The evaluators should contribute their knowledge of what it will take to answer those questions in a credible fashion.

The outcome will necessarily involve a good deal of compromise since reliable information is not a free good. But if the effort receives sufficient emphasis from the top management of the agency, it should yield a monitoring system which, with a reasonable investment of resources, produces reliable, timely and increasingly comprehensive answers to at least some of the key decision-relevant questions. Important questions which cannot be answered adequately or economically through a monitoring system should become part of the agenda for separate evaluation studies, scheduled (insofar as possible) for completion when major decision points are anticipated, such as reauthorization.

In addition to helping resolve the problem of differing perceptions of time, this sort of joint effort to design an effective monitoring system can be part of a strategy for overcoming organizational barriers. It might represent an important step, for example, in developing the integrated policy formulation process discussed previously.

There are other steps which might be taken to overcome the problem of time. Most discussions of the issue focus on the need for others to respond to the rigorous schedule of the budget process. It seems worthwhile to consider the possibility of changing the schedule itself. It is not self-evident, for example, that the public good is served by reconsidering every budget decision on every program, every year. Indeed, it is reasonably apparent that we pay a substantial price in doing so. First, there is a high degree of stability which can be observed in the budget estimates for most programs from one year to the next. In some cases, this stability reflects the pro forma nature of the budget review. But even a pro forma review involves a significant expenditure of scarce time and talent. In other cases, of course, the review is not pro forma. In these cases, the stability of the budget reflects the fact that circumstances simply do not warrant a substantial change. If there is no new data to support a major reassessment of the program, the outcome of the budget review is predictable--the estimates will change only marginally (if at all) from the previous year. In these cases, of course, the budget review process is quite expensive in terms of the time and talent devoted to it and the negligible consequences which result.

It is possible to conceive of a budget process which operates from quite a different premise. There are several possible alternatives which might be explored. First, the annual budget process is not preordained and immutable. Some States, for example, seem to function adequately on a biennial budget. Shifting to that model would clearly permit a somewhat more leisurely approach to budget formulation. It would also tend to encourage greater attention to longer term consequences of budget decisions. Considering the difficulty of making short-run changes in the budget, this change in focus might represent a more realistic perspective.

A second possibility would be a shift to staggered two-year budgets. This would involve two-year budgets on all programs, but with half the programs being reviewed each year. This would have the advantages of two-year budgeting, but with the additional benefit of spreading the workload.

A third possibility would be to tailor the budget cycle for each program to the characteristics of that program. Some programs, those which are inherently stable or in which stability is highly desirable, might be subject to intensive review only once every four years, in the first or second year of each new Presidential term. Others might be reviewed every two years and a few might be carefully reconsidered every year.

Annual budgeting has obvious advantages in terms of the potential for increased flexibility and control. But that potential is used rather rarely for anything more than marginal changes and entails a significant cost. This cost shows up in other ways besides the time and effort devoted to the budget process itself. The potential for change, even if it goes unexercised, creates an environment of uncertainty which is a source of inefficiency in program operations. Among other things, it is another factor emphasizing concentration on very short-term issues to the detriment of rational mid-term and long-range planning.

Reconciling Intellectual Frameworks

It is interesting to consider the underlying causes for the differing intellectual frameworks found between budgeteers and evaluators. One can postulate two markedly different hypotheses, either of which could explain the phenomenon. One is that the differences are inherent in the people, either genetically or by virtue of the training they receive before becoming practitioners. Under this hypothesis, the people are sorted out through a process of natural selection. Those who are suited to be evaluators gravitate to that field while those suited to be budgeteers gravitate to that field. This would imply that those who are good evaluators would make poor budgeteers and vice versa.

The alternative hypothesis is that people adopt the intellectual framework of the activity in which they are engaged. One learns to think like a budgeteer by being a budgeteer. If one becomes an evaluator, he or she learns to think like other evaluators. A good budgeteer, if told to become an evaluator and given time to acquire the requisite technical skills, would be a good evaluator and vice versa.

Not surprisingly, given the less than earth-shaking nature of this debate, there is little empirical evidence on the subject. This author would conjecture, however, that truth lies in some combination of these hypotheses. There is probably a substantial number of budgeteers and evaluators who would find the other intellectual framework so alien as to be intolerable. It is also probably true, however, that among the best people in each field there is a substantial number who could make (and have made) the switch relatively painlessly.

The attractiveness of the second hypothesis lies not just in the fact that good people have successfully moved from one field to the other, but in the fact that this success can be reasonably explained. Despite the vigorous (and frequently quite noisy) conflict between the two functions, they have a great deal in common. Both focus on the collection and analysis of information for purposes of making decisions about programs. Both operate from a basis of assumed rationality in the decision process.

One can also observe behavioral characteristics supporting the view that the two groups have much in common. At least some evaluators are as frustrated as anyone else by their difficulties in being responsive to the time-critical needs of decision-makers. Similarly, some budgeteers are very uncomfortable when forced to make policy recommendations on the basis of information which they recognize as being incomplete and unreliable. A good budgeteer would like nothing better than to have a solid, relatively conclusive evaluation on which to base his recommendations, and a good evaluator would like nothing better than to provide it.

The problem is that both are trapped by institutional impediments and the traditions of their own fields. It is difficult to break out of that trap and, except at the very senior level, it can be professionally hazardous to attempt to do so. Good budgets have "always been comprehensive and annual; budgeteers have "always" operated on partial, unreliable and impressionistic data. Good evaluations have "always" been carried out in the form of discrete, self-contained studies; evaluators have "always" worried more about reliability and precision than about timeliness. None of these statements is totally accurate, but each of them is part of the tradition of the field and thus part of its intellectual framework.

Both activities have yielded important results by remaining within their own traditions and intellectual frameworks. Neither is under direct assault for any failures attributable to its insularity from the other. This means there is relatively little incentive for individual practitioners to make the modest effort to break through that insularity or to make the mutual compromises necessary to do so. Thus, even though it is relatively easy to design models which would overcome the institutional impediments and which would be at least arguably useful in themselves, they are unlikely to be implemented because there is little pressure (or perceived need) to do so.

Why Bother?

The model toward which this paper points is an integrated policy development process, built around a multi-year budget for and policy review process. The analysis to support this process would involve a jointly developed system monitoring key indicators of efficiency and effectiveness and a jointly developed schedule of discrete studies on major issues timed around specific decision points.

There are obviously arguments which can be developed in opposition to such a model. Suppose, however, that these arguments can be overcome or that a different model can be developed that would minimize those problems and still accomplish the desired degree of integration. Even in these circumstances, is there any compelling reason to exert the effort required to put the model in place? After all, it does require substantial effort, not only to overcome institutional inertia, but to design the operating systems and procedures in sufficient detail to make them work. That investment should not be undertaken unless there is some evident reason to do so.

The search for intellectual neatness is frequently at the heart of proposals for procedural and organizational change, whether the change involves structure or systems. It is the wrong reason for change, because the world of management and policy is not (and cannot be made) neat and orderly. Change should be sought, not because it makes an organization chart look better or a system diagram look more orderly, but because it can be expected by reasonable people to yield a different outcome in the real world.

It seems reasonable (to this person, anyway) that an integrated policy development process will lead to a different and more useful policy focus. This, in turn, will permit the policy apparatus to consider a different set of policy choices. Changing the set of policy choices is essential because the present set, dictated, in part, by the systems, processes and institutional structures in which the choices are being made, is increasingly unacceptable. Note some of the characteristics of the existing executive budget formulation process. Attention is usually devoted almost exclusively to decisions concerning actions in the next 12-24 months. Decisions are based on consequences expected to occur within that same time period. They involve tradeoffs among programs based on highly sketchy information about those programs. The overall constraint is imposed by the overall fiscal policy objectives deemed appropriate for the achievement of economic policy objectives within that same time period.

Contrast this characterization of the budget decision process with the fact that in the 1982 Carter budget, more than 75% of the outlays were "uncontrollable," resulting from prior commitments and statutorily mandated payments. Much of the remaining 25% represents the cost of activities which few would wish to see totally abandoned. Thus, any effort to reduce the budget totals significantly in the short-run requires either radical surgery of that small portion which is truly discretionary, or bloody political battles to alter the uncontrollables, or both.

The Reagan budget adjustments for 1982 are representative of this approach. Whether or not one agrees with the policy priorities underlying the Administration's decisions, the structure of the process forced them--unnecessarily, in this writer's view--to make the choice between radical surgery and the status quo. Solutions which might, four years from now, reach the same budget policy goal as the radical surgery approach tend to be discounted in this context. They take time to develop and implement and thus do not show the immediate results demanded in the one-year focus of the annual budget process. One can speculate, for example, that the choice of what to cut, when, where, and how might well have been different if the focus had been the 1982-1986 quadrennium, taken as a whole, rather than fiscal year 1982 alone.

Under normal circumstances, it is very difficult to gain enactment of legislation within the timeframe of a single budget cycle, to say nothing of doing so early enough in the budget cycle to affect outlays significantly during the budget year. Yet this is what must be done to reduce outlays for the uncontrollable programs. Presidential budgets often contain proposals of this nature, but rarely is there serious expectation of enactment. (Events associated with the reconciliation process in 1981 are clearly inconsistent with this assessment. Whether they represent a new pattern, or simply an anomaly in the old one, remains to be seen.)

Usually, the political costs of enactment exceed the benefits, in the form of budget reductions, in part because the only visible benefits are the budget reductions which will be accomplished in the first year. If, instead, the proposal were considered in the context of a four-year budget, or even a two-year fiscal period, there would be two substantial advantages. First, the budgetary consequences themselves would be much more visible and dramatic. Second, it would be possible to allow time both for the development of a solid evaluative and analytical basis for new proposals and for careful congressional consideration, and still contemplate enactment in time to have substantial budgetary effects during the period.

There are much more basic reasons, however, for seeking the sorts of changes suggested in this paper. Despite the best efforts of able and dedicated professionals, the way we now go about the budget and policy development process is no longer adequate to the problems we face. The experiences of the

and the prospects for the 1980's make it clear that a short-term focus, supported by competent seat-of-the-pants analysis just will not suffice.

The Nation faces economic and social problems which are too complex and intractable to be solved by simple, quick fixes, no matter how radical. Notwithstanding our fondest wishes to the contrary, the problems of high inflation, high unemployment, high interest rates, inadequate investment, and low growth rates will not be solved quickly and painlessly by a single set of easily explained actions. They can only be overcome by a carefully developed and necessarily complex long-term strategy, diligently implemented over a number of years. That strategy can only be developed, explained credibly, and sustained politically for the necessary period if it focuses on the long-term consequences, and the actions necessary to achieve them, rather than on an inevitably futile search for immediate payoff. Our own experience suggests that the adverse social impacts of the policies necessary to combat inflation may not be politically tolerable in the context of a short-term focus.

By changing the terms of the debate to a longer time horizon, the beneficial effects can be made more visible and the policy changes necessary to accomplish them can be made more deliberatively, more gradually, and less disruptively. To return, in the end, to the earlier focus of this paper, they can also be made on the basis of a more coherent body of evaluation and analysis than is presently available.