Dr. Yilin Hou, Robin S. Lunsford, Katy C. Sides, and Kelsey A. Jones present a well-researched paper, “State Performance-Based Budgeting in Boom and Bust Years: An Analytical Framework and Survey of the States.” The paper provides a good overview of performance budgeting as well as its use—or lack of use—at the state government level during good and bad economic periods in the United States. The scholars employ an analysis of 11 states to examine and describe how these governments have used performance budgeting across specific time periods. The states included are sufficiently diverse geographically and in size to serve as a representative sample, and they are more than sufficient to provide information for the analysis. Also, the paper categorizes performance budgeting into three periods—“its rise in the 1990s, its use in the 2000s, and its sustainability in the current recession.” This categorization is a worthy framework for understanding the progression of state government use of performance information for budgeting.

The authors make two key points—first, that performance budgeting has been a more effective and useful tool for management than for the influence of budgetary decision making and, second, that performance budgeting has been used less in lean times than in robust economic periods. The paper’s analysis seeks to test the assertion made by some that performance information can be used effectively in both good and bad fiscal times. For example, the authors note that advocates for performance budgeting such as the Pew Center on the States promote that states can make “smart” spending decisions during good fiscal times and “intelligent” budget-cutting decisions during difficult ones.

Of the research’s two critical points, the most important conclusion is that the use of performance information for state budgeting and management has been more prevalent during good economic times than during poor ones. This is a particularly important point, and further research will be needed to understand why performance budgeting has not been used or used well during difficult fiscal times. Certainly the lack of use or limited use of performance data for budgetary decision making by state officials during periods of revenue decline is disconcerting to those who have long advocated performance information and measures as a good decision aid.

Recent anecdotal discussions of mine with a number of state budget officers indicate that the downturn in revenue during the “Great Recession” has been so dramatic that these governments have been operating in “crisis mode.” State officials consider that they have not had sufficient time or resources to devote to using performance information in order to determine where to cut and by how much. As a result, states have resorted to mainly across-the-board cuts, furloughs, layoffs, and, in some cases, tax increases to attempt to achieve balance (NASBO 2010). Unfortunately, this means that both effective and ineffective programs are treated equally, even though cuts should fall disproportionately on less important and less effective programs. To remain sustainable into the future, states need to implement structures that create incentives and mechanisms for making expenditure cuts based on performance information.

The economic situation has been particularly bad for states in the last three fiscal years. For example, the last two fiscal years realized the worst decline in revenue and resulting decline in state spending in decades. State revenue declined for the first time in both fiscal years 2009 and 2010. States have made significant budget cuts to accommodate such decline, but, as the authors find, few of these cuts have been made with performance data informing the decision. Unfortunately, the crisis decision making during this particularly bad recession has created an environment in which time and resources have not been applied to careful examination and analysis of performance information in order to determine the most and least effective programs, and then make cuts accordingly.
The future fiscal climate for American states indicates that a scarce resource environment will continue for several years, at least. This is compared to the revenue abundance during much of the post–World War II period until the recessions of the 1970s. The National Association of State Budget Officers estimates that while state spending growth averaged more than 5.5 percent in the decades before the Great Recession of 2008 and 2009, growth more likely will be closer to 3 percent in future years. The “new normal” for states likely will be slower revenue and spending growth (NASBO 2009). We can expect a “cut environment” to continue in the states. This means that it is even more important to learn how states can better take advantage of performance data and measures to inform such an environment.

In addition to noting the lack of performance budgeting application in poor economic times, the authors provide analysis regarding another critical point—that performance-based budgeting (PBB) has been used more successfully as a management tool than as a budgeting tool in most states. Perhaps, though, this should be viewed positively—performance information has been gathered and can be useful. This also means that officials who use performance data to inform and improve management decisions eventually can advance toward using performance information or using the information more effectively when making budgeting decisions. Performance information is being used in the management of some state programs, and successful use in one area means that it can be applied in other ways—in this case, as a budgeting decision aid. Therefore, an important benefit of this research is to encourage further analysis regarding the difficulties of implementing performance budgeting effectively in poor economic times. As noted earlier, more research needs to be conducted to determine how performance information can be used to inform and impact state budget-cutting decisions in the future.

Importantly, changing state administrations and the influx of new governors across the American states offer an opportunity for resurgence in the performance budgeting and performance management movement. Elected officials will continue to have to make very tough decisions, and they may look to performance data to inject some “rationality” into heretofore politically polarizing judgments about state services and programs. The “new normal” means that all state officials, novice and seasoned, must deal with slow revenue growth and continuing spending pressures for education, pensions, prisons, and other spending requirements and citizen desires. For new governors as state chief executives, understanding the usefulness of performance information applied to budgeting decisions, especially in lean times, is imperative. While across-the-board cuts may be determined more quickly and easier to implement, basing such decisions on program effectiveness ultimately serves citizens better and can lay a stronger foundation for more effective government operations and mix of services in the future.

The authors categorize modern PBB into three time periods—its rise and development in the 1990s, its peak use in the 2000s, and, more recently, a leveling off. An analysis of PBB use in specific agencies in three states indicates that performance budgeting was used more strongly during good economic times. However, some states may have “oversold” the effectiveness and use of performance measures and information in the late 1990s. This could also be true of the federal government’s performance activities under the National Performance Review. Further analysis might find that current performance budgeting efforts are not necessarily significantly weaker now than they were during the late 1990s information technology “boom” period. In fact, today might afford a period ripe for the implementation of PBB innovations. As the authors discuss, success hinges on creating the right incentives to use performance information as an aid to management and budget decisions.

The discussion of incentive contracts is a good analysis, though it could be the subject of another paper. These contracts can be an important way for officials to create desired results; however, the detail offered here may be unnecessary and detracts the reader from the more important findings. The authors also discuss the difficulties of measuring performance, and rightly so. However, these difficulties should not hinder the conduct of performance measurement or serve as an excuse to avoid the exercise. As the authors explain, a high-quality performance measurement program can take years to develop, and, as others have noted, this begins by putting one foot in front of the other and beginning the journey.

This article also examines the differences between the public and private spheres and how the public, political nature of government budgeting does not necessarily lead to the easy application of performance information to budgetary decision making. The authors do a good job of explaining this difference and the hurdles that exist to effectively apply PBB in the public sphere.

The authors explain that the use of PBB has leveled off, but that does not mean that PBB cannot be used or used more effectively going forward. With the major changes taking place in the leadership of states there will be opportunities to utilize performance information when making tough management and budget decisions in a scarce resource environment. Ten years hence, will we look back and see that budget decisions were made incrementally and in an ad hoc manner? Or will state leaders, elected officials, and managers take advantage of this opportunity to engage information as a decision aid, to better inform budgeting decisions by using performance data? This requires officials to engage a decision strategy to widen the range of information and data points used when making budgeting decisions. This work provides valuable information and analysis that can assist with the planning for that future.

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References