Current Estimates

The New Equation at OMB: M + B = RMO

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On March 1, 1994, Office of Management and Budget (OMB) Director Leon Panetta and Deputy Director Alice Rivlin announced the results of the "OMB 2000 Review," a comprehensive self-examination. The most important change was a major reorganization that combined management and budget functions within program-area divisions. According to Panetta and Rivlin:

> The new Resource Management Offices (RMO) we will create will be neither the current budget divisions augmented by more people, nor the current management offices. In time, they will by mission, training, staffing, and operating style, be new entities unlike anything now in OMB.[1]

Although the reorganization was consistent with the "reinventing government" ethos of the Clinton administration, it had much deeper roots. Put simply, some members of OMB's staff and some outside observers believed that OMB had lost its way in the 1980s. A common complaint was that OMB examiners, who had previously been expected to serve with neutral competence, were now negotiating with the Congress as the semi-political representatives of the president. Another criticism was that the press of budgetary issues led OMB to ignore general management problems and deemphasize policy evaluation. Supposedly gone were the days when OMB served as a thoughtful designer of agencies and policies; according to the critics, it now merely counted the beans.[2]

OMB's past has often featured arguments about the proper balance between the budgetary and other functions of OMB, and about the correct mix of analytical and political responsibilities for budget examiners, so in this sense.complaints about OMB were nothing new.[3] But the critics argued that OMB's problems had worsened, citing large losses from highly-visible failures like the insolvency of many insured depository institutions. And some proposed radical changes: in 1991, House Budget Committee Chairman Representative Leon Panetta filed a bill (H.R. 2750) that would have created a new Executive Office agency—the Office of Federal Management (OFM). The OFM would have taken over OMB's financial management, regulatory review, and procure-

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ment policy functions, as well as perform more general management responsibilities. (Understandably, after leaving the Congress to lead OMB, Panetta proposed an alternative that retained OMB's power.)

The Congress decided against this approach, instead giving OMB new financial management and program evaluation responsibilities. In 1990, the Chief Financial Officers Act required the federal government to develop auditable financial statements; it also created new financial management positions within the major agencies, and within OMB, two positions were formally upgraded—the Deputy Director for Management and the Controller (a government-wide chief financial officer). In 1993, the Congress passed the Government Performance and Results Act (GPRA), which required major agencies to develop strategic plans and to monitor and report on performance, all subject to OMB direction and oversight.

Yet, OMB's authority was challenged in another way by the Clinton administration's National Performance Review (NPR), under the leadership of Vice President Gore. This campaign to increase government efficiency usurped one of OMB's traditional roles, and was staffed primarily by agency personnel on detail. Many NPR-claimed savings clashed with OMB estimates; the NPR recommendation that stuck was a requirement for downsizing civilian employment by 272,900. By 1995, "NPR II" shifted focus from finding efficiencies to questioning program designs and purposes, another traditional function of ambitious budget examiners.

In this context, the OMB 2000 effort might be seen as an organizational imperative, a near-inevitable response to important threats and opportunities. How it will be carried out is more open to question, particularly given historical experiences: powerful central budget agencies have not been universally beloved, and attempts to integrate planning and budgeting have only been somewhat successful, to put the case charitably.

In this *CURRENT ESTIMATES*, two senior OMB staff discuss the reorganization and how OMB will mix budgeting, management, and policy functions with Roy T. Meyers, assistant professor of political science at the University of Maryland, Baltimore County. Bernard H. Martin is Special Assistant to the Deputy Director for Management. A long-time OMB staffer, he previously was a Deputy Associate Director in the human resources area and the head of legislative reference. Joseph S. Wholey is Senior Advisor to the Deputy Director for Management. An expert in program evaluation, he is a professor of public administration from the University of Southern California, Washington Public Affairs Center. The views they express are their own and do not necessarily represent the position of OMB. The discussion, which was conducted on May 22, 1995, has been edited.

Meyers: Could you summarize the process used to develop the OMB 2000 review, including why the review was begun?

Martin: There was a staff group made up of OMB career mid-level and junior staff, who did most of the information gathering and interviews, headed by Matt Miller, who was Alice Rivlin's special assistant. There was also a steering committee, which was composed of senior career people and two policy people, and they were responsible for looking at all the staff analyses and coming up with recommendations and the final report. As the enterprise went on, the steering committee gave the staff committee directions about further information to gather, discussed our observations, had the staff group attend our meetings, and in the end, produced the final report—a memo to Leon and Alice, and a whole set of documents. This report was never made public, to the best of my knowledge.

I'm not in the best position to tell why the review was begun—I know Alice and Leon had discussions with the Associate Director for Administration about whether we had the right structure; the National Performance Review was requiring each agency to do its own analysis, so the OMB 2000 Review was used to meet several objectives at once.

Meyers: What were the major conclusions of the review?

Martin: The main things that Alice and Leon mentioned in their memo came from ours—organizational as well as conceptual integration of the so-called budget and management sides of OMB, better internal cross-cutting and analytical processes, improving the work environment within OMB, improving our relations with the agencies, and getting rid of lower-priority activities. In each of those areas, we proposed improvements; in the case of budget and management, the fairly significant improvement of moving people around.

Meyers: When you said, "so-called budget and management sides," you reminded me of a perspective held by many budget examiners—"we do management as well as budget." Were you expressing that view?

Martin: The divisions between management and budget were always real organizationally, but they always should have been seen as part of a larger whole. In my own view, the budget divisions were responsible for a spectrum of activities in doing staff work for the president. They had to become engaged in policy formulation, program development, resource allocation, legislative review, regulatory review along with OIRA [the Office of Information and Regulatory Affairs], implementing whatever policies had been worked out—and this involved a whole set of management activities, whether financial management, organizational structure, whatever. The classic budget division always saw its responsibilities encompassing all of those, as a seamless web—there was a logical order moving all the way from policy formulation to the final implementation. Now, how well any examiner did depended on one's abilities, on timing, on the interests of policy people, and on relationships between the administration and the Hill, but at least theoretically, that was the classic responsibility of a budget division. It is also the current responsibility of an RMO.

Wholey: From outside OMB, and then coming in, it is clear to me that the resource allocation function—whether recommendations for the budget or execution of the approved budget—gives the examiner so much leverage over an agency that you see the examiner feeling responsible for how things go in that agency.

Meyers: That leads to my next question. While the budgetary functions of OMB are clear, its management functions have been somewhat amorphous. In the Reagan administration's Reform '88 effort, OMB emphasized improving information systems and debt and credit management. The Bush administration attacked "high-risk areas" with interagency SWAT teams. What is the focus of OMB's management improvement efforts now?

Martin: People have often defined management as a particular procedure—good management means we have well-audited financial reports, good management means we don't have as much fraud, or whatever. That has always been a much too narrow definition. Suppose the Department of Health and Human Services was extremely well run financially, and taking Head Start as an example, all the grants got out on time, the recipients got all the money when they were supposed to, and there was no fraud or abuse, but none of the children improved at all. It seems to me that's lousy management. Unless policy and program and resource allocation and management are integrated, management has no meaning; if management isn't related to program and resource allocation, what is its purpose?

Wholey: The idea of management, if you go back to Drucker, is setting goals that are known throughout the organization, then measuring how you are doing, and readjusting to keep doing better. Management can't mean simply avoiding fraud and abuse. In budgeting, the key thing has always been waste—not applying resources to the important goals. In Head Start, for example, kids should learn more, their health should be improved, their parents should be more involved; it's a multigoal program, but at least people should know what we're focusing on. It is true in government that we always have to worry about public funds being applied to private purposes. But the bigger task in these very big and complicated programs, has to be getting people focused on what it is we are trying to accomplish, how we know if we're making progress, and how we can make better progress. It isn't just performance measurement, it's performance improvement; demonstrating to the public that they are getting something for their tax dollars.

Martin: I remember when the Clinton administration first came in, one of the new policy people was interested in how the agencies were being managed. He started talking to people on the management side, and because he couldn't get very satisfactory answers, ended up talking to people in the budget division. The reason was not that people on the management side were stupid or ignorant, or incompetent; they saw their piece of the agency for their purpose. The only people who were forced, because of their job, to look at the agency as a whole were the budget examiners. To some degree, OMB 2000 was trying to recognize that reality.

Meyers: Since you brought up Head Start, the Bush administration had a bidding war with the Congress over who could come up with the largest, although in a relative sense still fairly small, increase in funding. But recently the Clinton administration and the Congress concluded that they had to stop and think about how the money is being used by many of the centers. My perception is that over the past decade, examiners paid relatively little attention to that kind of issue; rather, they were focusing on changes to the baseline.

Martin: All this is done in light of what the president and the Congress want to do, and in the world of politics, they often decide what they want to do on an ideological basis. Whether or not they link that to performance information that you or I might find compelling—you just can't tell. Some administrations come with a view of how the world should be or is, and they look on performance information as being of a lower level of importance—they are on a higher level of ideological and philosophical inquiry and they have made decisions based on that. Our job here is to present decision-makers with the best information we can, and the policy people can embrace it utterly or they can decide they don't want to listen to us.

Meyers: Some advocates of a strong management role for the Executive Office of the President have projected that budgetary issues would drive out management issues when management and budget staff were combined. This view assumes that responding to pressures to cut spending and complying with the more complicated budget procedures, such as pay-as-you-go rules, will take up almost all the time of OMB staff. Is there any evidence to date that suggests this view might be wrong?

Martin: The RMOs are fundamentally organized on an agency/program area basis. If the so-called management staff and budget staff deal with an agency separately, in the end, budget will always win, because what we're doing and how much we're spending is what presidents and Congresses always worry about. That's why there is always a danger that the two processes that are always demanding—legislation and budget—overcome other things. But OMB is making a very conscious attempt to assure that it doesn't happen; for example, we're now having a Spring Review on performance. And if you build in performance, you will be managing resource allocation the way you want to—budget and management flow together and become the same thing. The way you make management really effective is to build it right in.

Wholey: The theory of OMB 2000 is that you have a consistent set of policies, but the RMO touches the agency and tries to get the policies carried out in an effective way. A key question will be whether the agencies feel they are being treated similarly when everything is done through the RMOs, which are primarily policy focused. In the National Performance Review, where more is delegated to the operating agencies, you find collaboration among the operating agencies—we have these various councils coming together with a set of principles for implementing the GPRA. Collegiality, instead of top-down, is something that everybody is very interested in.

Meyers: OMB includes not only the new RMOs, but also the newly created Office of Federal Financial Management (OFFM), the Office of Federal Procurement Policy (OFPP), and the established Budget Review Division, which was split in two several years ago. What are the responsibilities of these units, and how do they interact with the RMOs?

Martin: The budget review divisions do what they have always done—coordinate the whole budget process, produce the documents, run the budget exercises. Attempts are being made to get them more involved in integrating budget and management—just recently, the key staff person who has been dealing with GPRA has been transferred to budget review. The hope is that GPRA and the budget process will become indistinguishable from one another.

The other offices—OFFM and OFPP—will continue to be the center of policy development in those areas, working with the RMOs and agencies to make sure that the policies are carried out. That is happening, although unevenly. OFFM has been the most successful in that the old complaints about separate information channels to the agencies have almost ended. OFFM is now sponsoring once-a-month meetings with the RMOs, and the agendas and minutes of Chief Financial Officer Council meetings are sent to the RMOs.

Meyers: When you implied the OFFM was more successful than OFPP, might that be because OFPP has been working hard with the Congress on the procurement legislation that passed in 1994? Now they have the very difficult job of changing the procurement culture in the agencies.

Wholey: They are given a job in the legislation of generating some demonstration projects, so it would be very natural that they keep touching the agencies to get the projects up and running. I think the theory of OMB 2000 is eventually OFFM and OFPP will primarily be policy development organizations.

Meyers: The regulatory review process run by OMB's Office of Information and Regulatory Affairs (OIRA) potentially has a very strong impact on the government's financial resources, especially in the area of health. Has there been any serious consideration of integrating OIRA into the RMOs, particularly when regulatory approaches might be substitutes for budgetary ones?

Martin: Leon and Alice decided to pretty much leave OIRA as it is for the time being, in order to carry out the presidents order on regulatory review. Any time a regulation comes in to OIRA, they send it to the RMO, and they work on it together, though they don't always agree. We'll see at a later time whether more OIRA people will be transferred to the RMOs.

Meyers: The March 1, 1994, memo included a section on personnel that I would like to quote:

> OMB staff in the new RMOs will have integrated responsibilities for the management, budget, and policy aspects of their assigned agencies or programs. They will be neither budget examiners as currently in budget divisions, nor, except in special circumstances, experts in discrete management skills or competencies. The new staff will be policy analysts. . . . (p. 5)[4]

What kind of skills and experiences are you going to emphasize as you recruit these new generalists? And what do you say to the fabled old hands who value their "bean counting" skills and say that the ability to crunch numbers must come first in a budget agency?

Martin: I don't know who those old hands are; in my view, the old budget examiner was always a budget examiner, a legislative analyst, a program developer, and a policy formulator. You have to have bean counting skills, you have to be able to crunch numbers, but you have to be able to do more than that. The old hands who were only bean counters were second- or third-rate old hands; they weren't the people who made the place go.

Wholey: Budget examiners are always looking for cuts, and the least harmful ones, which means there is policy analysis in every bit of ratcheting down.

Martin: How did the best get to be the best? One of the ways I think about it is like pointillism in French painting—a good budget examiner on a daily basis will be involved in a legislative clearance item, maybe something to do with a financial statement, a budget exercise in figuring out outlays. You do enough of that—you get involved in all levels of detail and all kinds of questions involving your program—and after a while, you really get to know the program inside out and backwards. If you are intelligent and you read—more than just internal OMB stuff—that constant immersion in the program really keeps you on top of it, so when a policy or program issue comes along, you can think it through.

People may develop a great policy idea, but have no idea how to carry it through to the budget; for example, they have no idea that they are violating the Budget Enforcement Act. A good budget examiner can avoid that because he or she understands how the whole system works. So there's a little bit of a dilemma: on the one hand, you can't get sucked into just the processes of the budget, but on the other hand, unless you understand budget and legislation and performance in a coherent picture, you really won't do good staff work for the director. The solution is partially the people, partially how OMB organizes, partially having large enough divisions so they can meet day-to-day crises *and* do longer-term analyses.

Meyers: The scholarly literature on program and performance budgeting is replete with stories that suggest it is very difficult to capture outcome data and use them in budgeting. Yet OMB has approved far more pilot projects for the development of performance plans and annual performance reports than required by the GPRA. What have you learned so far from these efforts; is the new approach under GPRA substantially different than previous ones?

Martin: I'm not sure the pilot projects so far have been that informative; perhaps they've been informative in the negative sense that there's a lot of work left to get good performance measures.

The question of "are we getting results?" has always been asked—there have been years of attempts to measure job training and education programs. The difference with GPRA is that now it is much more consciously recognized. In the past, it's been easier to call things performance that really weren't. I hope in the future that's going to be a lot harder; I hope we're going to confront people much more with performance questions.

Wholey: One thing learned from the pilots is that it is possible *and* hard for agencies to set up long-term goals and to assess progress towards goals in outcome terms. OMB did a review of the first fifty-some pilots, and about ten were fairly decent, about ten were terrible, and the others were in the middle. We haven't finished our review of the second year, but an impressionistic view is that maybe 50 percent of the pilots look fairly decent.

The thing that was a little bit backward with the pilot projects is that it didn't demand that the so-called strategic planning effort—where you clarify mission and long-term goals—be done first. We launched into measurement. Now, each one of the pilots is being asked to put a strategic plan around what they have already done, so that is really backwards.

Meyers: But not unlike much strategic planning in practice.

Wholey: The intention has shifted, though, from the now seventy-plus pilots to government-wide implementation. People know that you can't produce the performance plan, which is your budget submission for the fall of 1997, without having a strategic plan in place. It takes some time to consult all the key stakeholders outside your agency, including the congressional committees, about what the priority goals are and how we would know whether we are making any progress. There's a lot to be done between now and the fall of 1997 by each agency in clarifying priorities.

GPRA is different from other initiatives in that it's the law, not an executive-branch initiative. But though the legislation passed unanimously, it isn't as if every one of the staff members on the Hill is ready. Most of the people on the Hill have been much too busy with the huge changes taking place on the policy side to be worried about how we are going to implement this piece of legislation. Our idea is to go to Congress with a draft about missions, priority goals, and so forth, and get some reaction; perhaps a subcommittee will say, "you left out goal number sixteen," and the plan will have to be amended. The key thing is how we assist the Appropriations Committee to internalize performance information.

The thought is that we will have a better coming together between executive and legislative branches about what we are trying to accomplish. It won't be that every couple of years a new team of executives will be in place and constantly warping what's supposed to be going on. Instead, the theory is that there is a strategic plan that has more stability to it. You won't just have the bright ideas of the new cabinet secretaries who say, "these are the goals." They may account for 5–10 percent of the goals, but the main piece is the clear executive-legislative branch agreement.

Meyers: Listening to you talk about the desirability of clarified goals while coming up with performance measures, it was very easy to think of programs for which there is currently a great deal of disagreement between the branches about goals—foreign aid, public lands management, National Service Corps, and so on.

Martin: You can argue that this is the worst of times for this to happen because of the Republican revolution; people would be so focused on keeping programs alive that they wouldn't care about performance. Or arguably it's the best of times because people will clutch to performance as a lifeline, as a way to justify their existence and retain some financing.

Meyers: What is the role in this process of the budget examiners, or as they are now called, the program examiners?

Wholey: It's the agency that should touch all the stakeholders, come to OMB, and say, "this is how we intend to demonstrate what we are accomplishing around here."

The examiner would either say, "that sounds about right to me," or "you've left out this important aspect of performance." That's what this year's Spring Review on program performance is for—picking out key programs and trying to determine the major performance measurers we'd like to use in this year's budget process. We can't do it for all the programs in government, but for key programs in each agency it's exactly that kind of discussion that's been going on.

Meyers: If an examiner came in and said, "the agency has negotiated with the different stakeholders, come up with a list of measurable outputs and proposes to focus on those rather than going on to outcomes," would this be acceptable?

Martin: I think the examiner should say precisely that, if that's what the agency proposes, and then say why it's deficient and recommend measuring outcomes as well. Then it's up to the PAD [program associate director] or the director to make the call. If the director says, "you're right, but I don't want to take that issue on," she can make that decision, but at least she's doing it consciously.

Wholey: The GPRA is both wanting outcome information and able to be satisfied with output information only. Take immunizing the children. Literally, that's an output measure—do we get the kids immunized—and typically we don't track all those children to see whether they get diseases. Since the federal money tends to help low-income people, we are working hard at getting good output information on immunization rates not just for all two-year-olds, but also for low-income two-year-olds. It would be a very decent measure, more than we have now, for what the federal money seems to be accomplishing.

Meyers: The March 1, 1994, memo mentions that OMB will develop new processes for cross-cutting reviews of management and policy issues and mentions one that would compare tax preferences with regular spending programs. This might be seen as an attempt to reengineer OMB's basic approach to decision making, a challenging task given the importance in any budget agency of regular procedures for budget review. Has there been any progress in this area?

Martin: OMB has always had some cross-cutting reviews for topics like crime or drug abuse. Sometimes, we've had the review in the course of making the budget decisions. At other times, it's been *ex post facto*—once the budget decisions are all made, you see what you did in these areas, and there's an opportunity to change the numbers a little.

The current director is interested in doing more cross-cutting reviews and making them more significant in the process. Last year's streamlining activities in the context of NPR were an attempt. My sense now is that it is still more potential than reality, and I don't think we'll ever reengineer the basic approach. The basic budget decisions are made in the context of the major agency reviews—defense, HHS, what have you—and I doubt that the cross-cutting reviews would displace them.

Meyers: The historically important executive budget model assumes the necessity of a budget agency that is close to the president and able to say "no" to agencies with regularity. Yet, I have occasionally heard OMB examiners grumbling that OMB has lost policy-making influence to the National Economic Council and the National Performance Review, that they are being asked to cooperate too much with agencies in budget preparation, and that they have lost traditionally important tools for keeping agencies in line (e.g., quarterly apportionments). Are they right; is the day of an all-powerful, central budget agency gone, or was that just a myth?

Martin: I have the advantage of being able to look back over the last thirty years. In terms of decisions on major issues in the government, there have historically been three groups—the White House, OMB, and the agency. OMB has always had, and continues to have, a seat at the table. Now, the significance of that seat has varied—it depends on the relationship between the director and the president, the relationship between the director and the agency, the reputation of OMB in the Congress, the character and capacity of the PAD, and the particular issue.

It is true that in administrations that have more complex internal decision-making procedures, it's more difficult for any unit to have a dominant influence. The Clinton administration has quite a number of groups that get involved in decision making, so it is more difficult for OMB. That doesn't necessarily mean that OMB isn't an influential player. Things also change—for NPR II, the OMB PADs co-chair each of the groups, so we are right in the middle of that, for better or worse.

I'm not sure there ever was an all-powerful central budget agency. During the first year of Stockman, people thought he was running everything, but you may remember his famous meeting with Weinberger and Reagan where he lost his shirt! It's always been a little bit of a fever chart—our influence has gone up and down.

Meyers: Thank you very much.

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NOTES

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2. Moe, Ronald C., "The HUD Scandal and the Case for an Office of Federal Management," *Public Administration Review*, 51: July/August 1991, pp. 298–307.
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4. Leon Panetta and Alice Rivlin, "Making OMB More Effective in Serving the Presidency."

Errata

In the article "Bringing HUD Back from the Brink: Financial Management and Policy Design Reforms" (Current Estimates, Volume 15, Number 2), Roy T. Meyers was solely responsible for the introduction and listing of sources.