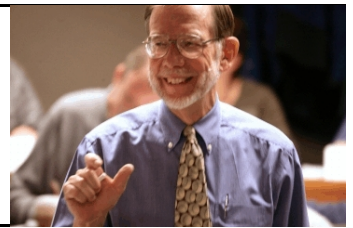


Bob

Behn's Performance Leadership Report

An occasional (and maybe even insightful) examination of the issues, dilemmas, challenges, and opportunities for improving performance and producing real results in public agencies.



Vol. 9, No. 9, May 2011

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On problems, dilemmas, and consequences created by the focus on

Budgeting for Today, Not for Tomorrow

It's budget season. Time for legislatures everywhere to create their budgets for the next fiscal year. And in this budget season, even more than most, there is only one question about spending: "How best to cut it?" Actually, to many, the question is more appropriately stated as: "How *least badly* to cut the budget?"

For cutting any budget isn't fun. It makes people angry. And political actors—even those responsible for budgets—never like to make anyone angry. Predictably, however, when constituents see the budget cut for their favorite program, they often get more than a little angry.

So do the program's stakeholders. They, too, are opposed to cutting their program's budget. No wonder cutback budgeting is so contentious.

Moreover, the managers of any program whose budget is cut are not pleased either. Intellectually, they accept that their jurisdiction must cut spending. Psychologically, however, they believe that cutting their own programs' budget is a horrible idea. Every public manager believes that his or her programs are important, essential—that they are producing social benefits that far exceed their financial costs.

To make this argument, they seek proof—some kind of benefit-cost analysis. Calculate the benefits that will accrue from next year's programmatic efforts. And not just next year's benefits. But also the benefits that will accrue in the following year, and in the year after that, and in the year after

The examples of public programs that generate benefits far into the future are numerous. Programs that improve highways this year generate benefits for years. So do programs that improve early childhood learning, or that rehabilitate convicted criminals, or that reduce water pollution, or that deter terrorists. It's hard to identify a public program that only generates benefits in the single year during which the money is spent.

Consequently, to determine the net public value that results from spending public funds for a specific program next year, it is necessary to take into account not just next year's benefits but also all of the benefits in future years.

To the rescue comes one of those concepts that everyone hated in graduate school: present discounted value. Today public managers everywhere are searching in their basement for old, forgotten textbooks or—even better—hiring an analytical wonk to make all of the complex but necessary calculations.

The analytical objective is to discount the stream of future benefits back to the present, being careful to use a high enough discount rate so as not to over-estimate the net public value created by the program.

The present discounted value of a program's future benefits may exceed next year's budget costs. But the political budgeteers are not convinced. They live in the present, not the future. They must balance next year's budget.

The political objective is to demonstrate that next year's expenditures will—if you can take into account all of the future benefits—generate a cumulated public value that well exceeds next year's projected spending. And . . .

Voila. The present discounted value of the future benefits does, indeed, exceed next year's costs. Anyone who has taken Economics 101 quickly comprehends the argument.

Unfortunately, the political budgeteers are not convinced. They live not in the future but the present—the very present. The present-value calculation may be clever—perhaps even comprehensible and believable. Still, it does not move them.

Sure, these political budgeteers care about the future. Just ask them. They talk about it all the time.

Their immediate task, however, is to balance next year's financial budget. Not the following year's financial budget. Certainly not the following decade's public-value budget.

Indeed, they *have to* balance the next year's budget. They have little choice.

Consequently, they'll let next year's political budgeteers worry about the following year's budget. They will let the next decade's budgeteers worry about the following decade's budget.

In 1981, David Stockman, Ronald Reagan's budget director, famously observed, "**I'm just not going to spend a lot of political capital solving some other guy's problem in 2010.**" And he didn't. In both politics and budgeting, two decades is a very long time.

Or, to look at this from the analytical perspective of present discounted value, political budgeteers have a very, very large discount rate—a political discount rate that is significantly larger than the economic discount rate that any economist would suggest. Public value in the near future—let alone the distant future—hardly counts at all. Next year and next year's costs dominate.

In many ways, David Stockman and today's political budgeteers think like Scarlett O'Hara. They share the same perspective on what to worry about today, and what to worry about tomorrow. As O'Hara reasons at the end of *Gone with the Wind*, "**I can't think about it now. I'll go crazy if I do. I'll think about it tomorrow.**"

"After all," O'Hara concluded, "**tomorrow is another day.**" **B**

Robert D. Behn is a lecturer at Harvard University's John F. Kennedy School of Government where he chairs the executive-education program "**Driving Government Performance: Leadership Strategies that Produce Results.**" His publications include: *Performance Leadership: 11 Better Practices That Can Ratchet Up Performance.*