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.

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On why all budgeteers need to recognize that

Across-the-Board Cuts Punish the Efficient

When a government finds it necessary, expedient, or desirable to cut the budget, it also finds across-the-board cuts to be very attractive. As the Goverment Finance Officers Association observes, "equal cuts to all areas are often perceived as 'fair.'"

This argument—that across-the-board cuts are "fair"—has to be based on a conviction that the current allocation of revenues is also "fair." And although the current budget allocations may be politically expedient—maybe even politically brilliant—they aren't necessarily "fair."

Not that the GFOA thinks across-the-board cuts are a good idea. As it observes, they "are often the symptom of a budget process that does not provide a good means for precisely targeted reductions in spending."

Still, across-the-board cuts are both politically and intellectually attractive. They require little thinking. Pick the percent to be cut and apply it to every program and agency. No complications. No migraines.

Still, a legislative history of across-the-board cuts creates some obvious incentives for agency managers. After all, revenue increases will be followed by revenue decreases. Not quite with the same repetitive precision as the rising and setting of the sun, but the business cycle isn't a mirage.

Thus, public managers eventually figure out two things: (1) Sometime in the future, their budget will be cut. (2) This cut will be by some arbitrary amount that is connected neither to their agency's public purpose nor to their effectiveness or efficiency in achieving this purpose.

Once they figure this out, what will they do? They can't take out insurance, so they will do the next best thing. They will invent ways to hide in their budget some unnecessary funds: funds that support activities they don't really need to achieve their purpose; funds that they can sacrifice in response to future—and inevitable—across-the-board cuts.

Legislative laziness in across-the-board budget cutting inspires managerial ingenuity. Across-the-board budget cuts do little to encourage efficiency. In fact, they do precisely the opposite. For if managers know that they will eventually be faced with a mindless, across-the-board budget cut, they will invent tactics to insulate them from its impact.

This is not exclusively a government problem. It is a large-organization problem. If those who allocate the budget fail to determine which subunits are effective and efficient and which are not, they have no basis (other than a superficial call to "fairness") on which to allocate budget decrements (or, indeed, any increments).

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The problem with across-the-board budget cuts is not that they are unfair. For every possible budget cut, there exists an argument for it being, somehow, unfair to someone. The problem with across-the-board budget cuts is that they penalize the efficient.

Even worse, across-the-board budget cuts reward the inefficient—both those who are incompetently inefficient and those who are cunningly so. Yet, legislators seem incapable of rewarding efficiency.

A decade ago, U.S. Representative Dan Burton chaired the House Committee on Government Reform. At one hearing, he recalled the time, as a member of the Indiana legislature, he overheard one state manager tell another: "We have only got, what, two months left in the fiscal year. And if we don't spend the money we have got, we are not going to be able to ask for an increase in the next appropriation."

Naturally, Burton was incensed: "I would like to figure out some way to give monetary rewards for people in government to come up with ways to streamline and create economies." Yet the standard legislative practice of taking back any agency's savings directly encourages the spend-it-or-lose-it attitude that Burton abhorred.

Still, any legislature can offer public agencies a rather obvious "monetary reward": Let every agency keep some of its savings.

This is not a completely delusional concept. A number of municipalities in the U.S.—primarily, I think, those with a city-manager form of government—have a provision for carry-over savings.

An agency does not necessarily get to keep all of its savings. A portion of an agency's savings may be directed to a specific purpose, such as schools, with the agency carrying over the rest.

Also, the agency cannot necessarily spend its carry-over funds on anything it wants. It is usually prohibited from using these funds to expand activities that might somehow imply a commitment to future expenditures. Instead, the agency is limited to using the funds for one-time expenditures—for example, new IT equipment or employee training.

Even with such limitations, the reward for saving can be significant. It simply requires the legislature to give up its propensity for micro-managing every agency's budget. B

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