



# Public Policy & Administration

January 2018

Syllabus [11/26/2017 Draft]

Spring 2018

PPPA 6054.10 : Issues in Federal Budgeting:

Federal Budget Process: Performance and Reform

Tuesdays, 6:10 to 8:00 PM

B 152 Phillips

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Office hours: Tuesday 5:00 – 5:45 PM; 8:00 – 8:45 PM (and by appointment)

Alan Schick, on the state of public budgeting;

“Everybody does it.

They do it every year.

And, they never get it right.”

George Will, describing the current federal budget process:

“...a labyrinth of trickery.”

“The federal budget process lacks the most fundamental element of budgeting: a binding constraint. It is a placebo, masking the absence of fiscal discipline and responsible decisions.” [TBA]

This course enables students to deepen their understanding of public budgeting: its necessity, process, performance, and continual efforts at reform. Ideally, budgeting is a form of constrained optimization. Given that productive resources are limited, while the beneficial uses to which they may be allocated are unlimited—scarcity of resource, the objective of budgeting is to allocate resources across alternative uses to obtain maximum social (total) benefits. In practice, federal budgeting often appears to be an attempt at avoiding or easing the universal constraint of scarcity. In that case, federal budgeting tends to be spending without observed limit, or identifying who is to pay. It is a special case of the common pool resource problem, where individual incentives are inconsistent with the objectives of stability, efficiency, and equity. It also takes on the form of a game played by opportunistic policymakers who are rewarded for evading, or “cheating,” while nominally staying within, the “rules.”

Federal budgeting and the associated decision process are too important to ignore. As citizen analysts, we have a responsibility to attempt to improve the process with a view toward results more consistent with social objectives.

No prerequisite is required, but a working knowledge of the current budget process, as covered in PPPA 6005, will be assumed. (For a brief review of those topics, consult the CBPP’s “Introduction to the Budget Process” at [www.cbpp.org](http://www.cbpp.org)). Some knowledge of microeconomics and accounting is a big plus.

From that foundational knowledge, we examine: the nature and frequency of “failure” judged by criteria; how reforms have attempted to improve the process, and succeeded or failed; the current reform agenda; and some of the more promising current proposals.

We also attempt to integrate our study with current events in Federal budgeting. To that end, we devote some time to monitoring budget activity via news items, Committee hearings and websites, CBO/OMB/GAO/CRFB and public interest reports and conferences. When important budget events are open to the public, we will attempt to access them via internet in class or as an out-of-class assignment.

To provide a context for reform, we begin with a review of recent federal budget performance. Then, we identify some first principles of budgeting, including why it is a necessary activity and its minimum information requirements. We compare

those user needs with those provided by the current process and note some general inconsistencies.

Then we consider some especially thorny issues for successful public budgeting: defining and observing an intertemporal budget constraint; managing and budgeting for mandatory spending, tax expenditures, regulation, and uncertainty; and use of “performance” information in budgeting, among others.

No textbook is required but you will need access to a federal budgeting text for reference. (A popular introductory text on budgeting is Mikesell, *Fiscal Administration*; Johnson, Lee, and Joyce is an alternative.) Readings and supplementary materials will be posted on Blackboard as needed.

### Learning Outcomes

This course enables students to:

- Understand the historical antecedents of today’s federal budget process and how those developments shape current budget analysis and practice;
- Evaluate the current budget process by the consistency of decisions with the social objectives of efficiency, equity, and stability;
- Identify sources of budget “errors” and assess the likelihood that various proposed reforms will improve budget decisions by adding critical but missing information, increasing the salience of available information, or better aligning Congressional incentives with social objectives.
- Develop an appreciation of “why” in the budget process, to deepen the knowledge of “what”.

Course grades will be the weighted sum of:

Quizzes .15, Short policy papers (3 – 5 pages) + other assignments .30, Mid-Term exam: .25 (no fault, i.e. if your score on the final is higher than on the mid-term, I’ll use the final score as your mid-term grade.), Final exam: .30

Policy Papers. One short paper is required, but two are permitted/encouraged. Paper topics are to be selected from the attached list or agreed with instructor. We will discuss topic selection at our first class. Plan to complete your topic selection by Class 2. To assist you in preparing the paper, you will make a

presentation (w/ Power Point) to the class for feedback, before you write it. I also will provide advice on your approach and analysis. Once topic selection is complete, I'll provide a schedule for presentations, which will not be graded. Use the presentation as a chance to explore possible alternative themes, approaches, ideas. Papers will be due 10 days after your class presentation, or May 1 for presentations on April 24.

The University has adopted a policy on contact time and independent work time required for each credit-hour earned. This policy requires me to advise you how time is to be allocated for this course. In general, you should expect to spend an *average* of 6-7 hours of preparation for class (reading, preparing assignments, reviewing, reflecting) and about 2 hours in class, each week.

For statements of GWU/TSPPPA policy regarding observance of religious holidays, accommodation for students with disabilities, academic integrity, safety and security, and mental health services, please see me.

Tentative Class Schedule [Adjustments likely, based on your choice of paper topics, current budget events, and your expressed professional interests.]

January 16: Introductions: all participants. Discussion of policy papers, quizzes, general policies. Budgeting and micro-economics: It all starts with scarcity. Review of micro-econ: Scarcity, supply and demand in one market, "Use of Knowledge in Society." Objectives of public budgeting: consumption smoothing or stability, efficiency, equity. Role of government in market economy. Information required for informed decisions. Review of current budget process and performance. Dark side of government. For a clear discussion of scarcity and its implications, see lessons 1 & 2 here:

[https://www.youtube.com/watch?v=kmjzgb\\_tUJ8](https://www.youtube.com/watch?v=kmjzgb_tUJ8)

January 23: Desirable features of a budget process, explained: comprehensive of resource use; salient, relevant constraint; up-front--at decision--recognition of allocation of resources (matching principle), reliable and comparable cost estimates, transparency. Budget reform in historical and future perspective. The Elephant in the Room: Budgeting without an Aggregate Constraint. Iron Law of Budgeting. CBO Long-Term Projections, Bhatti and Phaup. 2015, PGP Foundation, CRFB.

January 30: Budgetary accounting: mostly cash-basis with exceptions: interest on debt; intra-budgetary accruals for pensions; credit. Matching principle for budgetary accounting. Assignment: OMB Analytical Perspectives, Ch. 9, Budget Concepts. Federal Credit Reform Act. Lucas and Phaup, Reforming Credit Reform. Budgetary Accounting for Market Risk. How governments cheat—and sometimes deceive themselves? (Easy ones first: sunsets in tax legislation, timing shifts, the Class Act, implied guarantees.) (And an egregious one: if revenues rise slower than  $x$  or spending increases faster than  $y$ , then the short-fall/excess will trigger a revenue increase or a spending cut). Tip o' hat to PGP fndtn).

Note: President's Budget Proposal released on or about February 5.

February 6: Accounting: financial, managerial, and budgeting, illustrated with pensions. Budgeting for Mandatory Programs. Role of "standard setters". Assignment: Phaup, "Budgeting for Mandatory Spending."

February 13: Review of President's Budget Proposal; Capital Budgeting, analysis & cap v. full accounting integration. Intellectual and human capital. Proposal for a Federal Infra-structure Bank. Public-Private Partnerships. Assignment: OMB Circular on Investment and Analytical Perspectives.

February 20: Budgeting for Uncertainty, Risks and Adverse Surprises: The decennial census, war, natural disasters, and other unanticipated "emergencies." Assignment: Phaup and Kirschner, Bhatti and Phaup, and Shapiro.

February 27: Including performance, benefits, and alternatives in budget decisions. GPRA, Modernization Act, Performance Budgeting, Evidence-Based Budgeting.

March 6: Mid-term Exam, in-class, closed book

March 13: No Class, Spring Break. Enjoy.

March 20: Mid-term debrief; taking stock of where we've been, where we are headed. Implied guarantees as a policy instrument? Cargo preferences and "favored" suppliers.

March 27: Budgeting for regulation: Regulatory Reform Act or full monte?

April 3: Budgeting for Tax Expenditures

April 10: Behavioral Economics and the Budget Process.

April 17: Prospects for Reform: Ameliorating political polarization; Adding effective constraints; Broadening coverage; Increasing Salience and Relevance of Information; Improving incentives; Bringing the future closer to the present; Making Better Decisions Easier. How can public administrators contribute to solutions? Is there a risk that PA is part of the problem?

April 24: (last class): Unfinished business, wrap up, review

May 1-2 (Make-up class, if necessary)

May 8: Final exam: time limited, take home.