

Section 3: Where Do We Go From Here?

The reexamination questions posed in this report constitute both a challenge and an opportunity. Given the size of the fiscal imbalances looming in the future, business as usual will not suffice. The real question is not whether we deal with the fiscal imbalance, but how and when. Our policy process will be challenged to act with more foresight to take early action on problems that may not constitute an urgent crisis but pose important longer term threats to the nation's fiscal, economic, security, and societal future. To address these issues, policymaking institutions will also be challenged to shift from the traditional focus on incremental changes in spending or revenues to look more fundamentally at the underlying relevance, relative priority and results of various federal programs, policies, functions, and activities in addressing current and emerging national needs and problems across all major areas of the federal budget—discretionary spending, entitlements and other mandatory spending, and tax policies and programs.

While not easy, the periodic reexamination of existing portfolios of federal programs offers the prospect of weeding out ineffective or outdated programs while strengthening and updating those programs that are retained. Thus, such a process addresses not only fiscal imbalances but also can improve the responsiveness and effectiveness of government in addressing 21st century needs and challenges. As discussed in section 1 of this report, the nation's current fiscal policy path is unsustainable. The questions posed in section 2 of this report can be considered as one input among many that Congress will receive as it decides how to address these issues. While answers can draw on the work of GAO and others, only elected officials can and should decide whether, how, and when to move forward.

Fiscal Challenges Prompt the Need for a New Approach

The stakes associated with federal programs are large, both for beneficiaries of those programs and the nation's taxpayers. These programs serve important constituencies and provide significant current benefits. Accordingly, challenging the underlying basis, rationale, and results achieved by these programs is never simply an analytic exercise, but rather a political process involving players with strongly felt views and differing interests.

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The conflicts and uncertainties entailed in budgeting and policymaking are often mitigated by focusing decisions on incremental changes in resources each year. As a result, this incremental process focuses disproportionate attention on proposed changes to existing programs and proposals for new programs, with the base of programs being taken as “given.” This traditional process helps ensure stability and certainty in federal funding commitments and helps target the limited time and attention of policymakers on new proposals or proposals to change existing activities. While this approach may be appropriate in periods of stability and fiscal strength, it may be insufficient during a time of change and fiscal challenge.

Moreover, the process routinely examines only the one-third of federal spending subject to the annual appropriations process. By definition, entitlement programs and tax expenditures are generally not reviewed or reauthorized annually, and many of these programs are not even subject to periodic reauthorization to ensure that they are periodically reviewed. As the nation enters a period when the existing portfolio of programs is unaffordable and unsustainable at current levels of taxation, a more fundamental review of all major existing spending and tax policies and programs is not only appropriate but essential.

The size of the problem is so large that across-the-board approaches to distributing cuts broadly across many individual programs and accounts cannot really work. In addition, such approaches can result in retaining fat while cutting muscle—specifically, across-the-board cuts risk cutting effective programs while leaving ineffective, outdated, or lower priority programs in the base. An across-the-board approach also constitutes a missed opportunity to address at a fundamental level the drivers of long-term deficits. Given the size of the long-term fiscal imbalances, all major spending and revenue programs in the budget should be subject to periodic reviews and reexamination. While it is important to focus on the major programs driving the long-term outlook—Medicare, Medicaid and Social Security—our recent fiscal history suggests that exempting major areas from reexamination and review can undermine the credibility and political support for the entire process. Given the

Building Support for a Reexamination Process

size of the long-term fiscal imbalances, it is highly unlikely that this problem can be “solved” by reforms in any one sector.

We recognize that reexamining the base is a challenging process for both leaders and stakeholders alike. Just as the traditional process limits choices and political conflict, putting entire programs up for review periodically can increase the stakes and conflict associated with budget decisions. Accordingly, a process to review established programs and priorities will need to be supported by a strong and publicly compelling rationale.

The challenge for leaders is to frame the fiscal challenges as something with important consequences for the values and interests that affect American citizens, both now and in the future. As participants at GAO’s recent budget forum noted, leaders have been able to make a compelling case for fiscal sacrifice before, but it is never easy.³ While current deficits are troubling, they are but a prelude to the daunting long-term fiscal challenges highlighted in section 1 that are significant, structural and unsustainable in nature. However, long-term issues can be difficult to address, particularly when the most significant impact is beyond the 10 year baseline time horizon.

Effective and sustained leadership will be necessary to gain support among the public and other key players for addressing these long-term fiscal issues. Taking a long-term perspective can provide important dividends for leaders in making the case to the broader public for initiating a reexamination process sooner rather than later. Early action can turn the power of compounding from an enemy to an ally, as reduced deficits usher in reduced debt, interest costs and economic growth. Moreover, early action can enable leaders to phase in changes over many years to permit future program beneficiaries to more easily adjust to policy changes by altering their own private choices for savings, retirement, or other issues. Finally, reexamination can also be used as a way to free funding for new

³GAO, *Comptroller General’s Forum: The Long-Term Fiscal Challenge*, GAO-05-282SP (Washington, D.C.: February 2005).

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programs and investments, thereby providing more immediate support for the exercise.

Perhaps the most compelling reason to begin the review process now is the dire consequences of waiting for a crisis. If we wait for deficits to rise to levels that seriously alarm markets or other economic actors to the point of approaching or reaching a “tipping point,” the nation will be forced to adopt major and precipitous policy actions that would have significant disruptive consequences for the lives of retirees and workers alike.

Given the severity of the nation’s fiscal challenges and the wide range of federal programs, the hard choices that need to be considered may take a generation to address. Beginning the reexamination and review process now would enable decision makers to be more strategic and selective in choosing areas for review over a period of years. Reexamining selected parts of the budget base, over time rather than all at once, will lengthen the process, but it may also make the process more feasible and less burdensome for decision makers. And by phasing in change to programs or policies that might otherwise have prohibitively high costs of transition, the burden of change can be spread out over longer time periods.

Notwithstanding the challenges associated with reexamination, reviewing the base of programs and operations has ample precedent. The federal government, in fact, has reexamined and reformed selected programs and priorities in the past. From a programmatic perspective, such reexaminations have included, for example, the 1983 Social Security reform, the 1986 tax reform, and the 1996 welfare reform. They have also included reforms such as the creation of the Department of Homeland Security and, most recently, the ongoing reorganization of the U.S. intelligence community. From a broader fiscal standpoint, the 1990s featured significant deficit reduction measures adopted by the Congress and supported by the President that made important changes to discretionary spending, entitlement program growth, and revenues that helped eliminate deficits and bring about budgetary surpluses.

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Some may be skeptical as to whether our political system is able to address long-term problems or commitments. However, such skepticism ignores past examples of attention to long-term goals. The interstate highway program took a generation to plan and complete. The Social Security system was created with very long time horizons in mind and has undergone major restructuring in both 1977 and 1983, with an eye toward improving the program's longer-term sustainability. As a nation, we also anticipated, and as a result met, the educational capacity needs of the baby boom all the way from primary school to college.

States and other nations also have engaged in reexamination exercises. States have variously examined their bases, through cutback management, performance and strategic planning, budget reform, and privatization/contracting out. In recent years, various states have reexamined their various programs and priorities through such mechanisms as efficiency commissions and reprioritization exercises. For instance, the state of Washington adopted what it calls a statewide results-based approach to budgeting called "Priorities of Government" to address a budgetary shortfall of \$2.4 billion for the 2003-2005 biennium. Under this system, programs and activities were reviewed and ranked based on their relative contribution to eleven broader performance goals, leading to cuts for programs below the line of available revenues.

Other nations, too, have undertaken comprehensive reexamination efforts. New Zealand, Australia, Canada, and the Netherlands, for example, have undergone performance-based budgeting and performance management reforms aimed at reprioritizing the base of their respective governmental activity and budget that spanned a number of years. In Canada, an OECD study concluded that a program review exercise delivered \$18.8 billion in savings above previously-planned reductions (cumulative over 3 years) announced in the 1995 and 1996 budgets and to that extent certainly contributed to achieving—and in fact exceeding—the original deficit-to-GDP target of 3 percent by 1996-97. In the Netherlands, reconsideration reviews are conducted on particular programs selected for each budget cycle, with participation by working groups of central budget and departmental staff as well as external experts, resulting in a public report with recommendations to be considered

in the budget process. According to OECD, the process has been in place since 1981 and has led to significant savings as well as many reforms of major policy areas.⁴

Multiple Approaches Can Facilitate Reexamination

In our system a successful reexamination process will in all likelihood rely on multiple approaches over a period of years. Rules and process can play a role in facilitating decisions and supporting leaders in making tough choices. However, processes cannot by themselves force decisions. Leadership, a sense of stewardship for the future, and an agreement that tough choices and meaningful actions are required and essential for success.

Some congressional observers believe a deceptively simple approach may hold the most promise: reliance on the existing reauthorization, oversight, appropriations, and budget processes. They have been deployed to review and change existing programs on a selective or episodic basis, but each also is perceived to have certain constraints that have prompted calls for change:

- *The reauthorization process.* The reauthorization process affords the Congress the opportunity to probe into the effectiveness of a program and to terminate or make any changes before providing funding for the reauthorized program. Reauthorization is the purview of authorizing committees in the Congress and authorizations generally precede appropriations. However, some programs have authorizations that are permanent and do not expire while others are subject to periodic reauthorizations, are funded by permanent appropriations, such as the Veterans Affairs Pensions Benefits program. Furthermore, concerns have been expressed that the authorization process has increasingly been made less effective by the continuation of funding in appropriations bills even when programs' authorizations have expired, such as the Federal Bureau of Investigation (FBI) and the Federal Prison System, which were funded in fiscal year 2005 with expired authorizations of appropriations.

⁴Organisation for Economic Co-operation and Development, *Reallocation: The Role of Budget Institutions* (GOV/PUMA/SBO (2003)15), May 16, 2003.

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- *The oversight process.* Although oversight can and does occur with authorizations and appropriations, the Congress also has a separate oversight process available outside the traditional reauthorization/appropriations discussions. This oversight process provides the Congress the means to hold agencies accountable for the economy, efficiency, and effectiveness of existing policies, programs, and agency operations. The committees primarily responsible for exercising this oversight are the Senate Committee on Homeland Security and Governmental Affairs and the House Committee on Government Reform, although authorizing committees also engage in oversight reviews and hearings in connection with matters within their jurisdiction. GAO and agencies' inspectors general support congressional oversight with analysis, evaluations, investigations, and reviews of various programs and operations. Concerns have been expressed by a number of observers regarding the need to increase attention to oversight in the Congress and the lack of legislative follow-through for findings of oversight investigations and hearings.
- *The appropriations process.* For the approximately one-third of the federal budget that is subject to the annual appropriations process, this process gives the Congress the opportunity to annually review programs and operations. Although this process does not touch the major drivers of the long-term deficit (e.g., Medicare, Medicaid, Social Security) it does cover programs important to citizens and the nation (e.g., defense, homeland security, health research, transportation, national parks, education, environment). The squeeze created by the growth in mandatory spending increases the need to ensure that this part of the budget is reexamined and adapted to the 21st century.
- *The budget process.* The congressional budget process is the annual vehicle through which the Congress articulates both an overall fiscal stance—overall targets for spending and revenue—and its priorities across various broad categories. The process provides the overall constraints for spending and revenue actions by the Congress for each year and the rules of procedure that can be used to constrain new entitlement and tax legislation not

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assumed in the annual budget resolution. Directions contained in the budget resolution for reconciliation legislation trigger the review of existing programs by directing congressional committees to propose cuts to meet savings targets contained in the resolution. The budget rules that were grounded in statute—including discretionary spending caps and “PAYGO” limits on mandatory spending and tax cuts—and enforced by executive actions if violated, expired at the end of fiscal year 2002; the only constraints are those contained and enforced through congressional budget resolutions, and reinforced by points of order.

Other specific approaches and processes have been proposed to supplement the existing congressional processes and entities. While these are generally aimed at addressing perceived limitations with existing processes and to prompt greater incentives or support for review and reexamination, each have their own set of potential benefits as well as limitations that have historically constrained their use or success:

- *Special temporary commissions.* Special temporary commissions have been convened to formulate recommendations for specific policy or functional areas. Temporary commissions are appealing because they provide a safe haven for developing policy alternatives, often are bipartisan in nature, may involve both executive and legislative branch representatives, and typically include experts both within and outside of government. Most commissions are designed to address issues in a timely manner and then are dissolved. Commissions can be very promising, but their ultimate success depends on the extent to which the Congress and the executive branch agree about the need for action, on the need to use a nontraditional approach to reach agreement or to develop a specific proposal, and on their general willingness to address the recommendations of such commissions. This can be seen in the differing results of some examples: Social Security reform (e.g., Greenspan Commission and Moynihan Commission), terrorism and intelligence reform (e.g., 9-11 Commission), military base realignment and closures (e.g., BRAC Commission), and Medicare (e.g., Breaux Commission).

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- *Sunset provisions.* Proposals have been made to institute across-the-board provisions terminating all existing programs after a certain number of years to trigger their reexamination. Although numerous specific programs contain fixed period authorizations that are like sunset provisions, such as the federal highway funding and the Temporary Assistance for Needy Families (TANF) program, a broad federal sunset law has never been adopted. Concerns about this approach include the burden of a crosscutting provision and the lack of targeting those programs most in need of reexamination. In addition, some have noted that fixed-period authorizations are, in effect, sunset provisions. The reauthorization process can offer the same opportunity for reexamination—and if appropriations are not forthcoming in the absence of a reauthorization, then fixed-term authorizations effectively constitute sunsets.
- *Executive reorganization authority.* In the past, the Congress has provided the president with authority to propose and gain fast-track consideration of changes in structures and responsibilities of federal agencies and programs. However, such authority has been progressively limited over the years. The fundamental issue raised by granting reorganization authority to the President is whether and how the Congress wishes to change the nature of its normal deliberative process when addressing Presidential proposals to restructure the federal government. The Congress may want to consider different tracks for proposals that propose significant policy changes versus those that focus more narrowly on government operations.
- *Biennial Budgeting.* Shifting appropriations to a biennial cycle has been proposed as a way to promote more systematic congressional oversight and review in the “off” year. However, skeptics note that whether this reform in fact frees more congressional time depends on whether the budget remains relatively unchanged during the off year. The Congress has been passing annual supplemental appropriations in recent years and this is expected to continue for several more years. Moreover, some argue that reducing appropriations reviews to once every other year would serve to reduce the opportunities for the Congress to routinely examine and review programs and

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executive operations. Although some states use biennial budgeting (e.g., Texas, Connecticut, and Ohio), their experiences are mixed, with the governor having more budgeting power than the President.

Performance and analytic tools may be as important as or more important than specific process reforms in facilitating reexamination. In this regard, the performance metrics and plans ushered in by the Government Performance and Results Act of 1993 (GPRA) have led to a growing supply of increasingly sophisticated measures and data on the results achieved by various federal programs. Agencies and OMB have been working over the years to strengthen the links between this information and the budget. Under the Program Assessment Rating Tool (PART), for example, OMB plans to rate the effectiveness of each program in the budget over a 5-year period.

While these initiatives provide a foundation for a baseline review of federal policies, programs, functions, and activities, several changes are in order to support the type of reexamination we have in mind. First, the PART focus on individual programs will provide important new assessments, but it needs to be supplemented by a more crosscutting assessment of the relative contribution of portfolios of programs and tools to broader outcomes. Most key performance goals of importance—ranging from low income housing to food safety to counterterrorism—are addressed by a wide range of discretionary, entitlement, tax, and regulatory approaches that cut across a number of agencies. While OMB is moving to include some crosscutting assessments in the fiscal year 2006 PART, fully developing the governmentwide performance plan provided for under GPRA would provide a more systematic vehicle for addressing the performance of programs cutting across agencies to broader goals. Second, the Congress could consider the need to focus its oversight and review on these important overarching goals and missions by considering adopting a performance agenda of its own. One potential approach we have suggested is a performance resolution that could be included as part of the annual budget resolution to help target congressional activity on key program areas or performance problems. Once program areas or problems are selected, special collaborative initiatives among GAO, CRS, CBO,

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IGs, and even OMB could be undertaken to identify and evaluate various performance issues and alternatives for congressional consideration, including identifying specific programs ripe for reorganization, consolidation, or other reforms.

Conclusion

As the foregoing discussion suggests, there are a range of available reexamination approaches and strategies. Assuming that reexamination is pursued by the Congress adopted as a congressional objective, we suggest that the challenge for the Congress is at least threefold: (1) building support within the Congress itself, the Administration, and ultimately the broader public to justify a base-line reexamination of existing federal policies, programs, functions, and activities as discussed in section 1, (2) identifying those areas that congressional and executive leaders agree need review along the lines of the illustrative questions offered in section 2, and (3) choosing reexamination approaches and strategies that are appropriate for the particular areas being examined as discussed in this section.

The choice among reexamination approaches will be informed by many factors. Initially, the choice of reexamination tools or approaches may be determined depending on such factors as how frequently an issue arises and the degree of political support and complexity. For example, a commission may be well suited to moving along ideas for problems that occur infrequently and that require “cover” to reach political agreement, such as Social Security reform. The reauthorization and oversight processes may be better suited for problems that occur more frequently, but not every year, as is the case with TANF reauthorization and oversight hearings on the activities of federal agencies. The appropriations process may be more conducive to policy matters requiring congressional action every year, such as the funding of national defense. In fact, a mix of different approaches has often been used to reexamine and reform specific policy areas in the recent past, as shown in figure 5.

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Figure 5: Selected Reforms and Reexamination Approaches

Congress has enacted major reforms in recent years which were promoted and considered through the use of various reexamination processes and tools

Intelligence reform—The Intelligence Reform and Terrorism Prevention Act of 2004 aimed to unify, coordinate, and make more effective the U.S. intelligence community. Congress drew on the reexamination agenda put forward by the National Commission on Terrorist Attacks Upon the United States (9-11 Commission), in developing the actual legislation through its committee system.

Department of Homeland Security—The Homeland Security Act of 2002 brought together 22 organizations and created the Department of Homeland Security. In its proposal for a Department of Homeland Security, the President included several provisions similar to those proposed by reexamination effort of the U.S. Commission on National Security/21st Century (Hart-Rudman Commission). Congress tailored the actual legislation following hearings and consideration by its authorizing and oversight committees.

Farm reform—The Federal Agriculture Improvement and Reform Act of 1996 changed the federal government's approach to farm support from a policy based on managing crop production and supporting farm income to a policy that allows producers flexibility in what they plant. The need for new legislation was triggered by the provision in permanent law that would have rebased subsidies to levels authorized in 1949—leading to higher subsidies and federal costs.

Social Security reform—The 1983 Amendments to the Social Security Act made changes in Social Security coverage, financing, and benefit structure. The reform was made necessary by projections showing insufficient fund assets to pay all benefits. A bipartisan executive-legislative commission developed the proposal that led to legislation receiving widespread bipartisan congressional support.

Source: GAO.

Other important factors that will drive the specific approaches used include the public's readiness and familiarity with the issues being reexamined, the need for some kind of budgetary constraint or incentive to prompt review, the desire for consensus among stakeholders, and the stage of development of the issue itself.

Figure 6 demonstrates how different approaches might be appropriate at differing stages of the development of an issue, ranging from the need to simply raise awareness about the related, perhaps not widely perceived, reexamination issues all the way to the need to develop specific proposals for dealing with relatively well-defined problems. Studies by GAO or other independent and qualified organizations could be used to raise public awareness of issues and problems ("agenda setting"). Congressional hearings and other forums (e.g., regional sessions) could be used to educate the broader public about the need for change. When prioritizing the issue among other concerns, the Congress might use the occasion of the annual budget resolution, the oversight agenda, or perhaps

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develop a new performance resolution to rank its reexamination and review priorities. For developing policy proposals, the Congress can rely on existing authorization processes, or can rely on a temporary special commission to develop new policy proposals or recommendations for particularly complex or controversial areas. As a reexamination unfolds, then, a combination of approaches may be needed.

Figure 6: Reexamination Maturity Model

Different developmental stages of reexamination	May require...	Different reexamination approaches, such as:
<ul style="list-style-type: none"> • <i>Agenda setting</i>—raising awareness of issues by collecting information and defining the nature, timing and scope of new issues and problems with existing programs. 	→	<ul style="list-style-type: none"> • Studies by GAO or other independent and qualified organizations
<ul style="list-style-type: none"> • <i>Educating</i>—informing the broader public about need for change. 	→	<ul style="list-style-type: none"> • Congressional hearings or other forums
<ul style="list-style-type: none"> • <i>Prioritizing and aggregating</i>—validating the basis for problem definition, and prioritizing and grouping assessments of current programs. 	→	<ul style="list-style-type: none"> • Leadership prioritization initiatives • Annual congressional budget resolution/oversight agenda
<ul style="list-style-type: none"> • <i>Developing policy proposals</i>—providing a menu of options, exploring differences, making recommendations. 	→	<ul style="list-style-type: none"> • Temporary special commissions • Reauthorization process • Executive reorganization authority

Source: GAO.

Regardless of the specific combination of reexamination approaches adopted, the ultimate success of this process will depend on several important overarching conditions

- Sustained leadership to champion changes and reforms through the many stages of the policy process.
- Broad based input by a wide range of stakeholders.
- Reliable data and credible analysis from a broad range of sources that provides a compelling fact based rationale for changing the base of programs and policies for specific areas.

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- Clear and transparent processes for engaging the broader public in the debate over the recommended changes.

In conclusion, our nation faces large, growing and structural long-term fiscal imbalances that we cannot simply grow our way out of. Rather, hard choices based on a fundamental reexamination of government policies, programs, functions, and activities will be necessary in order to address our long-term fiscal imbalance. This will include consideration of what the federal government should do, how it should do business, and how it should be financed in the future. The resolution of these problems must invariably entail difficult political choices among competing programs that promise benefits to many Americans but are collectively unaffordable at current revenue levels. However, given the fiscal challenges, a reexamination of government can be expected, whether initiated through a public decision making process or forced on us by a crisis.

The questions provided in this volume are designed to illustrate the kinds of issues that such a review can address, not the answers that such a process will reach. Such a review will be difficult and the process may take a generation or more to unfold. The reexamination process will in fact proceed through various processes and venues. However, the nation will be better served if such a process begins sooner rather than later.