



The Bottom Line

Newsletter of the
AMERICAN ASSOCIATION FOR BUDGET & PROGRAM ANALYSIS
www.aabpa.org

The American Association for Budget & Program Analysis is a non-profit organization devoted to furthering knowledge in budgeting, program analysis and related fields. Through its programs, AABPA provides for the exchange of ideas and experience of its members in government, academic and private sectors. For more information, write AABPA, Box 1157, Falls Church, VA 22041, or call (703) 941-4300.

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President's Message



This year is the 35th anniversary of AABPA, and much has changed in the world of budgeting and program analysis over the past three and half decades. The AABPA Board of Directors is hard at work planning this year's anniversary events, and I hope that you will take full advantage of all that AABPA has to offer in the coming months. This is going to be an exciting year—keep an eye out for new networking events, training sessions, and volunteer opportunities to connect you with fellow budgeteers and analysts across Washington.

In honor of our beginnings, Ed Brigham has written an excellent article on the next page that describes our organization's creation and the founders who had the forethought and innovation to establish an organization dedicated to the professional training of budget and program analysts. Do you have stories of funny, scary, outrageous, or unbelievable moments of budget history? In your opinion, what has been the biggest change in our profession over the last 35 years? Please take a moment and share these memories with Ed at aabpahistory@yahoo.com and help us document our history.

Looking forward, I am pleased to announce that AABPA's spring symposium will take place on Tuesday, May 18, at the Capital Hilton Hotel (16th and K Streets NW). Mark your calendars for this day of information and advice from experts in budget policy and administration. Are we facing trillion dollar deficits for the foreseeable future? Will the Congress and the President find common ground and agree on a plan to control spending? Come get a jump on developments that will change how you work in the coming months.

Your continued professional development is important, and AABPA can help you gain the expertise you need by keeping abreast of changes in budget laws and regulations, new government-wide initiatives, Congressional activities, and other training and professional development opportunities. We hope you will look to AABPA as a resource to help you do your job better, and we encourage you to let your friends and other potential new members know about our association and its activities.

Finally, I would like to encourage you to help us make the next 35 years of AABPA as good, or even better, than our first 35 years. Volunteer to join AABPA's Board of Directors. As a director, you have the opportunity to hone your management, communication, and organizational skills, connect with senior level analysts across the federal government, and create training programs that enhance our profession.

Please feel free to contact me and the people listed on this page (e-mail addresses can be found on our website) if you have any questions, suggestions for improvements to AABPA, or ideas about future topics for our symposia, program meetings, or other activities we do as a professional association. We hope that you will contribute to this year's designated charities and also share this newsletter with your colleagues who may not be AABPA members.



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HAPPY BIRTHDAY AABPA

Ed Brigham, Former President, AABPA

2010 marks the 35th anniversary of the founding of the American Association for Budget and Program Analysis (AABPA). AABPA will commemorate this milestone event throughout the year. The Spring Symposium will recognize the founders and original officers. Our symposia and programs will emphasize how AABPA's first 35 years have laid the groundwork necessary to meet the professional and training challenges and needs of our membership now and in the future.

In the early 1970's, the Federal Budget Officers Conference sought to elevate the profile of the Federal budget workforce, broaden their focus, and meet important needs for mid-career training and professional interaction. Their discussions highlighted the need for a professional organization. Additional impetus came from the proposal of the American Association of Program Analysis to merge with the professional association for budget professionals under consideration. In 1975, John Garmat, Al Kliman, Emerson Markham, Iris Lipkowitz, George Strauss, and Herb Persil – with many others – created the AABPA to serve budget and policy professionals at the Federal, State, and local levels.

One of the earlier accomplishments of AABPA was to partner in the late 1970's with the Section on Budgeting and Financial Management (ABFM) of the American Society for Public Administration (ASPA) to launch the journal *Public Budgeting and Finance* (PB&F). The inaugural issue appeared in the spring of 1981. This journal, which has become the premier journal for research in public finance, is "...a publication for practitioners interested in ideas and for scholars interested in practice." AABPA members receive copies of the journal with their membership.

AABPA grew up with the implementation of the Congressional Budget and Impoundment Control Act of 1974. A staple of AABPA events up through the early 1990's was training on the Congressional budget process, reconciliation bills, impoundments, and changes in Executive Branch procedures and decisionmaking to implement the 1974 Act. Starting in the 1990's, AABPA took the lead in providing information and training about the ongoing automation of public budgeting and performance management emphases. AABPA members have been very active in designing and implementing budget and performance management systems in the Federal Government.

More recently, AABPA has moved to strengthen its ties to the academic world and to bring students, who will be the budget and policy professionals of the future, into more active AABPA participation. These efforts have benefited significantly from the move of several active AABPA members from career public service into academic positions in public administration and policy schools. The AABPA annual summer intern program and research competition for Masters-level public administration and policy students will help those students transition into public service while providing professional support and contacts.

The AABPA officers and board of directors encourage all AABPA members to use the 35th anniversary to learn more about how AABPA has adapted to significant changes in public budgeting and policy analysis while serving our membership. Undoubtedly, AABPA will have to continue to navigate rapid changes while fulfilling its charter to provide educational and professional service to public sector budget and policy professionals. The 35th anniversary is an opportunity for AABPA to better understand its origins and accomplishments and to apply the examples and lessons of the first 35 years to meet professional needs and challenges in the future with optimism.



CALLING ALL FORMER AABPA BOARD MEMBERS AND OFFICERS!

Did you recently receive an email about AABPA's 35th Anniversary activities? If not, it seems we are missing your current email address. Please contact Chris at aabpa@aol.com or (703) 941-4300 to update your contact information.

They say estimating is a mix of art and science. AABPA would like to tap into your creative reserve and memories of the budget process over the last 35 years. Updating your email address will also guarantee that you receive announcement about our anniversary activities. Please contact us today.

Boldly Going Where No Man Has Gone Before

Jasmine Herron, Reporter

Space... the final frontier. The following article explores the voyages of the starship, American Government. It's going to be a multi-year mission: to explore issues of the new world, solve big puzzles, take big steps, and to boldly go where no man has gone before.

Dr. Donald Kettl has been the director of the Fels Institute of Government at the University of Pennsylvania and a Nonresident Senior Fellow at the Brookings Institution. He previously served as executive director of the Century Foundation's Project on Federalism and Homeland Security, and Academic Coordinator of the Government Performance Project for the Pew Charitable Trusts. He has authored, co-authored, and edited 25 books and numerous scholarly articles on public management, governance, tax reform and homeland security. At the AABPA 2009 Spring Symposium, it was announced that Dr. Kettl will bring his leadership and expertise to the University of Maryland as the new dean of the School of Public Policy.

Dr. Kettl began his lunch speech by making a reference to the notable opening line from the Star Trek television series and films. The quote, "To boldly go where no man has gone before," provided a great lead into Dr. Kettl's discussion on the current fundamental transformation in the role of government. He provided attendees with an informative view on how the American government is reconstructing what it is, what it does, how it ought to go about doing it, accountability, and its role in the economy.

The Obama administration is currently facing complicated issues, from Iraq to the economic crisis. The current goal is to combat the recession so we don't end up in a depression. Dr. Kettl expressed

his belief that the legacy of President Obama would include the redefinition of local government and its relationship with the private sector. As a nation, we have placed more demands on government to intervene in the private sector. With recent food safety and consumer product issues such as the "killer tomatoes" and the "lead Barbies," Dr. Kettl noted that there has been a dramatic increase in the need for government intervention in private sector services.

Demand for greater government protection has raised several questions: What is the private market? What is the role of government in free market capitalism? Dr. Kettl addressed the recent bank bailouts and the issue of banks being too big to fail. He stated, "If government intervenes to bail out the losers, who will go out of business?" These are issues we must consider as the U.S. government is transforming and being redefined in the market context.

Dr. Kettl mentioned that the fundamental transformation of government involves putting big puzzles together. He stated that the government has a collection of new tools that have been invented without exit strategies or management strategies. We entered Iraq with the hope that democracy would flourish, but now we need an exit strategy. A stimulus has been passed to help the economy, and like the bank bailouts, the stimulus is prompting people to ask what the plan is afterward.

The government bailed out insurance company AIG to prevent further collapse. The government also owns a large chunk of GM. Dr. Kettl applauded the Bush and Obama administrations, but he also posed the question, "What does this mean?" Difficult tradeoffs are going to be made due to the recent bailouts and takeovers. Government must attempt to satisfy the

citizens and the autoworkers. Government must minimize tax payers' dollars, yet maximize lended dollars.

The lunch audience was left in deep thought as Dr. Kettl discussed whether political institutions have the capacity to do what the American government has attempted. Political pressures are created because citizens don't want their money wasted. Dr. Kettl continued his thoughts on the balance of powers. Congress wants to spend money, but must decide how to do so. As a result, government has been more executive-centered, with the executive branch making big decisions. At the state level, government is more centered around the governor, appearing to favor the governor over the state legislature. There has been a noticeable tilt from the legislative to the executive branch. Dr. Kettl concluded that there are basic questions surrounding the institutional capacity and the shift of power.

Another aspect of the fundamental transformation of government pertains to the big steps and processes that are necessary to this transformation. Dr. Kettl stated that the problems America is facing are inescapable, and will take a long time to fix. "Nobody knows how to do this!," he exclaimed.

Transparency is what the Obama administration is counting on. Bottom-up accountability is expected with the nearly \$800 billion spent. State and local governments, as well as the private sector, must implement this concept, and the federal government will collect the information. This concept was too much to digest in Dr. Kettl's and many other audience members' opinions. Dr. Kettl said that a potential problem with the bottom-up process is that the media and others will focus on what he calls the "cherry-picking

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Poking and Prying with a Purpose

Monique Liston, Reporter

In light of the financial crisis, the housing market debacle, and the credit card calamity, the 2009 AABPA Spring Symposium was aptly entitled, "Transforming Crisis into Opportunity." The symposium focused on the immense opportunities that were available to those willing to invest time into projects that would create better opportunities for social and intellectual growth. This year's student researchers presented unique opportunities for advancement in public administration and public policy initiatives from across the country. Zora Neale Hurston, famed anthropologist, author, and historian is credited with saying, "Research is formalized curiosity. It is poking and prying with a purpose." Student researchers express a relentless curiosity in society and the policies that govern it, and the 2008 economic downturn gave aim to meticulously poking and prying at public policy and governance.

Mariel John, Master of Arts candidate in International Science and Technology Policy at George Washington University, conducted an in-depth cost benefit analysis of the National Science Foundation Graduate Research Program. She reviewed the program's costs and benefits from 1952-2008. Her results showed that the program provided \$26 million dollars in benefits to the biggest stakeholders, American taxpayers. John concluded from her research that since no capital investments are needed to sustain the program, policy recommendations should include continued yearly support.

Masters in Public Policy candidate Ashley Palmer also conducted a cost benefit analysis. The subject of her study was "Healthy San Francisco," a

universal health care program in San Francisco, California. She created estimates of the revenues and savings that the program created directly or indirectly and assessed whether the program had positive benefits for the community it serves. She discovered positive net benefits and recommends that greater investment in the Healthy San Francisco program could create higher returns in the future.

Brian Elderbloom, Masters in Public Administration candidate at George Washington University, was greatly intrigued by Governor Bobby Jindal's rejection of the federal stimulus funds for the state of Louisiana. He reviewed the policy and government practices that might inhibit a state from accepting federal money. Elderbloom discovered that many states could move the line item off the budget and adjust accordingly if US Treasury assets were depleted.

Tax increment financing (TIF) has been widely used by local governments for redevelopment projects. Hongwung

Wang, PhD student at the Indiana University at Bloomington, researched the impact of TIF usage in the city of Chicago. The study examines what factors affect the growth rates of the total property tax base of Chicago districts between 1990 and 2006. Wang concluded that neighborhoods with disadvantaged economic characteristics that adopt TIF should sign an agreement with private developers to implement projects like mixed-use community development, residential projects and affordable housing.

Overall, the student researchers took the advantageous opportunity to explore new options in spending, taxation, and program development to develop fresh and innovative solutions to the financial problems governments are facing. The symposium has provided further proof that the investment in higher education yields progress in policy and governance. Best of luck to the student researchers as they embark on opportunities in public service and academia.



Getting the Performance Results and Transparency We Need

Shahla Aliguliyeva, Reporter

Jon Desenberg, the senior policy director at the Performance Institute, opened the 2009 Spring Symposium with "Please, let them know we are struggling." He explained that this was a message that agencies asked him to deliver to important financial management representatives. Mr. Desenberg provided two real examples of the need for open communication and transparency to get accurate data for performance review.

He explained that the 2020 Census already is being planned. It will cover 140 million households, each contacted through regular mail 5 times. If half of them do not respond after 5 times, they will be contacted 5 to 7 times more. "This is a huge effort," he said. "But when it comes to the field, sometimes it does not feel that these efforts are so significant. People in the government need people's support."

Mr. Desenberg shared that the U.S. State Department not only needs to work on transparency and accountability at the Southern border, but also to convince Mexicans to do the same. His message was clear: "We need to do more to support all people in the grassroots level to make it happen. People out there sometimes need support from important financial management people to show them how to do planning and management," Desenberg added.

Mr. Desenberg believes that the Government Performance and Results Act is only the beginning. Even though we often think that transparency and accountability are blended together, they are not the same thing.

The speaker asked decision makers to think about their audiences. Monitoring performance on a daily basis is something that should be done. Transparency in performance leads to

improved results, and transparency can be explained and monitored simply.

Government officials do their work because they must, and because they are accountable to the people. The United Way has established requirements for funding. In order to get funding from them, applicants must demonstrate how their work will cascade in the community, which is a great example of performance management.

Mr. Desenberg's organization is relying on a lot of non-governmental organizations (NGOs) in Mexico to help the State Department's projects. Innogov.org is a new project started by his agency. He emphasized the importance of peer-to-peer exchange for successful government performance. "Not all best ideas come from people on the top," Desenberg explained.

The Government Performance Coalition, as well as the Partnership for the Public Service, which is a member of the former, were mentioned as initiatives that contribute to the development of better government management.

To ensure good government management, it is also important to make sure that government officials balance their budget every year. "Some people in the new administration have to understand that we don't have time to start from scratch. We cannot rip off everything and start from the beginning," Desenberg said. He hopes that the Federal Performance Officer is someone who can focus on these issues. He also hopes that the Congressional Budget Office considers this issue.

Weekly reporting as opposed to monthly reporting is important, as well. This ensures a more proactive approach to problems, because the faster and more

often numbers are received, the faster issues can be addressed.

Program evaluation is a missing piece in this puzzle. Often organizations claim that they do not have enough money to conduct program evaluation, or they are lacking the opportunity to do so. Desenberg hopes that the new legislation will help to achieve progress in this field. For this purpose, he also suggested doing some checklist exercises.

Data call mentality

Data calls are calls that are made on Friday afternoons saying "we need a certain number by Monday. But in this case people do not know if these numbers actually play any role. We need to have a more results-oriented approach. Results-oriented performance measures are very important. We need to share best practices and lessons learned in order to making reporting better and more sensible." Desenberg's organization also hopes to see new legislation that would make the existing council on evaluation permanent. "The issue is not about being Democrat or Republican; performance management is for everyone," he said.

If an organization has an effective strategy, sharing it with other organizations could be beneficial to all. When these practices remain inside individual agencies, they remain in small boxes. This idea can be compared to swim lanes that are divided by walls.

It is important not just to see the numbers, but also to understand the story and the meaning behind those numbers. This is what Desenberg meant by real communication: quantitative and qualitative.

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Ambiguous Budgeting: Navigating Recent Federal Policies in Financial Markets

Andrew Gooch, Reporter

The United States budgeting community is facing a new frontier in public financial management. After financial markets plummeted in September and October of 2008, governmental and quasi-governmental organizations provided a safety net for large financial services organizations which flirted with bankruptcy. The AABPA Spring Symposium brought together influential policymakers to make sense of these new policies in financial markets.

The Troubled Asset Relief Program (TARP) passed Congress in October 2008, giving the Office of Financial Stability at the Treasury Department authority to purchase troubled assets from banks to reduce counterparty uncertainty and to inject equity into financial institutions to restore solvency. Jennifer Main, CFO of the Office of Financial Stability, spoke about the challenges in budgeting for the transactions associated with TARP. Main asserts that a misconception exists about the \$700 billion associated with TARP – the figure is not a budget obligation limit as most media outlets suggest. Instead, the face value of assets bought through TARP cannot exceed \$700 billion, meaning the true budget range of TARP depends on the return on the loan, and the return is currently unknown.

Jim Hearn, Deputy Staff Director of the Senate Budget Committee, helped write the TARP legislation for the minority side of the aisle and discussed the uncertainty involved with TARP at the symposium as well. Hearn posits that a major source of ambiguity in TARP revolves around the lack of a shared vocabulary among the government institutions (Treasury, FDIC, and the Federal Reserve) which are now involved in financial markets. The simple term “cost,” for example, has different meanings to different people and organizations. When the term “cost” is used, it is never in reference to an actual

budgetary outlay because it is impossible to calculate a bottom line cost for the financial market programs. In fact, some of the funding commitments are unlimited which creates information asymmetries among administrators and makes program accountability difficult. Hearn noted, “You hear transparency until you want to throw up, but it [TARP] is far from transparent.”

Tom Woodward, assistant director for Tax Analysis at the Congressional Budget Office, concurred with Jim Hearn, saying that the government cannot predict how much money will be lost subsidizing financial markets because the various accounting terms used by participating government actors lead to different ideas of transparency. For example, the Federal Reserve uses accrual accounting and never uses risk accounting. Woodward argues that most of the financial market relief has come from the Federal Reserve providing liquidity beyond banks and intermediaries. The Fed went steps further and created programs to mimic bank loaning in order to keep credit flowing in the system. According to Woodward, the Fed and the FDIC successfully stepped in to prevent a credit collapse that would have rivaled the 1930’s credit crash. Their task now is to prevent financial mismanagement that would mirror Japan during the 1990’s. However, according to Woodward, the Fed and the FDIC do not yet have a plan to prevent the type of financial problems that plagued Japan.

Doug Holtz-Eakin, former director of the Congressional Budget Office and current president of DHE Consulting, provided a unique perspective given his intimate knowledge of the crisis. Holtz-Eakin noted the extenuating circumstances that existed in the United States before the crisis even hit – household debt was enormous, the U.S. government was in poor fiscal health,

and mandatory spending programs in recent decades created endless budgets instead of year-to-year outlays. It is like the “U.S. is getting a new credit card to pay off the previous ones,” he stated. Holtz-Eakin stressed four objectives that the government must explain to the American public:

1. When creating federal policies in financial markets, a level playing field among policy choices must exist.
2. The government must determine what these developing policies mean for federal borrowing moving forward. The current level of borrowing is not sustainable.
3. The government must present the true cost to taxpayers. Taxpayers want to know how much resources are required to cover loan guarantees, but the asset prices are unknown, which means no government institution can perform risk adjusted budgeting.
4. The government must be upfront with the American people about the total scope of government intervention. For example, Fannie Mae and Freddy Mac need to be on the government books, which will signal to the American people that these organizations are now part of the government. In addition, the Fed and the Treasury have clearly coordinated action when dealing with Fannie and Freddy. Is the Fed now a policy arm of the government?

The insight provided by these experts reveals the core problem of ambiguous budgeting within recent federal policies in financial markets. The true cost of these financial programs is impossible to predict, which prevents accurate budgetary outlays. Moreover, each government regulator and loaner uses different budgetary and accounting methods; as a result, communication between government entities becomes muddled.

The Budget, the Economy and Who Has the Magic Eightball?

Charles Hessler, Reporter

Melissa Merrell, a Congressional Budget Office analyst and president-elect of AABPA moderated the morning panel on the current economic challenges impacting public finance. The panel included: Teri Gullo, deputy assistant director of CBO's Budget Analysis Division; Austin Smythe, staff director of the House Budget Committee, Minority Staff; Scott Pattison, director of the National Association of State Budget Officers; and James Horney, director of Fiscal Affairs for the Center on Budget and Policy Priorities.

Teri Gullo began the discussion with CBO's assessment of the President's FY 2010 budget. Gullo illustrated that the budget will add \$4.8 trillion dollars to the baseline and the cumulative deficit will total \$9.8 trillion dollars. The projected deficits include outlays for the American Recovery and Reinvestment Act of 2009 (ARRA), the 2009 Omnibus Act and SCHIP, which total \$1.7 trillion dollars, or twelve percent of the GDP. In addition, technical changes affecting TARP funding and the federal takeover of Fannie Mae and Freddie Mac will increase the federal deficit by \$243 billion dollars.

While the CBO forecasts a continued deterioration of the economy for this fiscal year, proposed tax and spending legislation are designed to stimulate the economy and hopefully cease the free fall by the end of 2009. Tax proposals include modifying and extending President Bush's 2001 and 2003 tax cuts, as well as provisions for cap and trade implementation. As a result of increases in the alternative minimum tax (AMT), revenues are projected to increase from 18 to 20 percent of the GDP. At the same time, the CBO observed an increase in the deficit due to spending initiatives (increases in discretionary spending, healthcare, and education).

While these initiatives are designed to stimulate the economy in the short term, Smythe believes that the long term deficit for these levels of spending is too high. According to Smythe, it is important to combat the effects of the "Vote-O-Rama" on amendments to the President's budget which lead to budget engrossment. Smythe provided a bleak outlook for the long term deficit of this country if Congress fails to control spending and lower taxes.

At the same time, Smythe highlighted the apparent inability of Congress to reach a consensus on measures to promote accountability and transparency of the money allocated by Congress. While the Senate is able to use Reconciliation to protect budgetary legislation from a filibuster, it is not a useful tool in the House of Representatives. In the House, cloture has been used in the past, but it is difficult to reach a clear majority on budgetary issues. These structural issues complicate the decision-making process and make Congressional action arduous and slow.

In contrast, other panelists were quick to assert that Congressional action in favor of ARRA could benefit the economy in both the short and the long-term. James Horney joked that, "Congress does not understand economics. We should use the money from the stimulus to hire unemployed economists to teach economics to Congress." In the past, the federal government employed monetary policies to halt economic decline, but those approaches are not viable at this point in time. In Horney's expert opinion, stimulus spending could be even bigger - one trillion dollars - which could help even more. While the President's budget calls for greater spending in sectors such as health care, education and environmental

protection, Horney argues that spending now can improve effectiveness and reduce the cost of delivering these services in the long-term.

During this economic crisis, state governments are experiencing rising unemployment, declining budgets, and falling bond ratings. According to Scott Pattison, most sub-national governments are experiencing decline (forty-four states are in recession and six states are at risk for a recession), with half of the states making budget cuts which have led to massive layoffs. This is contributing to an unemployment rate that economists are predicting could rise as high as nine or ten percent nationally. This could drastically impact the states' ability to derive revenue from taxes on property, personal income, and sales. These budget cuts are also resulting in the elimination of numerous governmental programs at the state and local level.

While not a complete fix, Pattison demonstrated that the stimulus can potentially improve the states' outlook by increasing spending and providing the funding necessary to reduce budgetary cutbacks. Until the economy rebounds, some budget cuts will occur, but the states will be compelled to improve effectiveness and accountability to ensure that they continue to receive assistance from the federal government. Knowing that the stimulus funding will eventually cease, states also will be forced to better manage their money and balance their budgets. Creativity will be crucial as states attempt to replenish their coffers and provide quality services without raising taxes. Lastly, Pattison predicted that FY 2011 will be the earliest that states will see true recovery, but the overall success depends on how long the recession lasts.

Improving Government Efficiency Through BFELoB Systems

Steven Pennington, Reporter

At this point, many federal government employees are familiar with the Budget Formulation and Execution Line of Business (BFELoB) and their efforts to improve the efficiency of government processes and knowledge management. Developed by BFELoB, the MAX software system allows federal agencies to store and share information, host online meetings, and easily collaborate on large projects.

Andy Schoenbach, BFELoB policy lead and Budget Systems Branch chief of OMB, opened the morning session, "Saving Time and Money with BFELoB Tools." He explained that the purpose of the meeting was to discuss the results of the Line of Business (LoB) and the ways the MAX Federal Community and MAX software applications are integrated in the daily operations of specific agencies.

Michael Sheridan, an analyst from the Office of Health Affairs at DHS, discussed the ways the MAX Federal Community is being used within his office. He showed how the wiki functionality of the MAX Federal Community allows his office to create a dashboard. His colleagues can easily navigate through the office's information by functional menus and orga-

nizational charts. This allows his office to easily access information on project objectives, details, and accomplishments. He highlighted the accountability that the community provides and the transparency of information.

Michele Heffner, from the General Services Administration and OpenGov initiative, reiterated the Community's ability to increase agency accountability and promote transparency in government activity. She emphasized the collaborative efforts that are made possible through MAX and the increased agency participation in decision making. Heffner praised the system's capability to provide federal employees with a means to share and collaborate in an easy-to-use forum. Michael Cupertino, budget analyst from the Department of Justice, applauded the BFELoB for creating highly customizable products. He explained that his department took hundreds of Word documents detailing answers to legal questions and consolidated them into a standardized form for their website. He said the ability to share and edit documents directly on the the MAX Federal Community has allowed employees to eliminate the use of track changes in Word and the inefficiency of emailing attachments.

Michael Sieverts underscored many similar elements of the MAX Federal Community's implementation at the National Science Foundation. While focusing on the best things about MAX, he emphasized the inter-agency collaborative tools and the ease of sharing information.

Despite the concerns pertaining to the employees' comfort level with the MAX Federal Community's wiki functionality, the panel presented an overwhelmingly confident and optimistic perspective on the BFELoB's products and the agency-specific support they receive from the Community administrators. This system of information sharing, data collection, and agency collaboration is certainly saving agencies time and money. Moderator Andy Schoenbach informed the audience that the BFELoB's projects are much larger than just the things mentioned during the panel and an analytics database is one of the tools that is coming soon. As the tools developed by the BFELoB continue to increase functionality, we should expect to hear and learn more about their applicability for improving the effectiveness, timeliness, and efficiency of the public services offered by all federal agencies.

Please view our web site at www.aabpa.org for information about AABPA, association updates, and many budget and program analysis resources.

Financial Regulation: What Went Wrong and Where Do We Go?

Julie Wroblewski and Patrick Mullen, Reporters

As the fallout from the recent financial crisis continues many in the private and public sectors are asking, "What went wrong and where do we go from here?" A panel at the recent AABPA Spring Symposium reviewed the events that led up to the financial crisis and discussed possible improvements to the U.S. financial regulatory system. Panel members included:

- Patrick Mullen, University of Illinois at Springfield (convener)
- Tom Stanton, Johns Hopkins University and National Academy of Public Administration Fellow
- Tom McCool, Financial Markets, Government Accountability Office
- Giselle Datz, Virginia Tech, Alexandria Campus, and
- Anne Khademian, Virginia Tech, Alexandria Campus

Tom Stanton from Johns Hopkins University provided insight into why Fannie Mae and Freddie Mac failed and offered recommendations for improving the financial regulatory structure. Mr. Stanton noted that the failure of Fannie and Freddie revealed some inherent vulnerabilities of government sponsored entities (GSEs) as an organizational model. He pointed out that the perceived government backing of Fannie and Freddie led to immense market power and political force. They were able to borrow at lower costs than competitors and take on excessive risk while successfully resisting increased supervision and regulation.

In light of the failure of these entities, Mr. Stanton made several recommendations for improving the supervision of the financial system. First, he suggested the establishment of a financial equivalent of the National Transportation Safety Board to monitor issues of systemic risk in the financial system and propose improve-

ments to the regulatory structure. Second, he suggested that a temporary, wholly government owned corporation be created within the U.S. Treasury to administer TARP and other similar programs. Third, he recommended that the government place Fannie Mae and Freddie Mac in receivership, administer them as wholly owned government corporations to support the mortgage market for five years, and then sunset their charters. Fourth, he suggested assigning staff within the Office of Management and Budget (OMB) with responsibility for assessing the capacity of federal agencies such as Federal Housing Administration (FHA). Mr. Stanton suggested referring to his monograph, "Strengthening Government's Ability to Deal with the Financial Crises," available at the IBM Center for the Business of Government website (www.businessofgovernment.org).

Tom McCool from the Government Accountability Office (GAO) gave an overview of a recent GAO report which examined the evolution of the financial regulatory structure in the U.S. and identified important characteristics for a financial regulatory system that can be used by Congress and others to create and evaluate regulatory system proposals. Mr. McCool explained that the existing financial regulatory structure has faced challenges in recent years because markets have become more global, some financial institutions have grown "too big to manage" and some less regulated entities have come to play an increasingly important role in the regulatory system.

The proposed GAO framework for creating or evaluating regulatory proposals includes nine characteristics or essential elements of an effective regulatory system. These characteristics include: 1) clear, relevant, prioritized regulatory goals; 2) appropriately comprehensive

measures; 3) a system wide focus; 4) flexibility and adaptability; 5) efficient and effective oversight; 6) consistent consumer and investor protection; 7) independence, prominence, authority, and accountability for regulators; 8) consistent financial oversight; and 9) minimal taxpayer exposure. He suggested referring to the GAO report, "Financial Regulation: Industry Changes Prompt Need to Reconsider U.S. Regulatory Structure," GAO-05-61, October 6, 2004, available at www.gao.gov.

Giselle Datz from Virginia Polytechnic Institute and State University spoke about the micro-dynamics of the crisis and the role that short-termism in finance and politics played in the recent economic downturn. According to Ms. Datz, the Asian crisis of 1997, the Russian crisis of 1998 and the Argentine collapse of 2001 demonstrated that counter-cyclical policies are crucial to protect economies from unforeseen shocks. Why then were counter-cyclical policies ignored by many developed countries in the lead up to the financial crisis? Ms. Datz suggested that market participants and government officials were fixated on short-term benefits and that perhaps they were overconfident about hedging as a tool for counter-cyclicality. Further, she pointed out that incentive structures and methodological tools used in the financial sector reinforced short-term myopia and led to long-term risks that were unaccounted for in financial models. In conclusion, Ms. Datz stated that the current administration must consider the task of how to reverse short-termism in politics, economics and finance. Among the possible strategies, she suggested that incentive structures will have to be reconfigured to value long-term stability and methodologies for evaluating information will have to be reconsidered.

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Hard to be Funny this Year

Kirstin Wells, Reporter

This year for Stan Collendar's speech at the Spring Symposium, there were no costumes, no baseballs, and no disco music. Why the change in format? Well, this year, Stan is mad- mad as hell about everything.

What's he so angry about? The list is long, but the first thing that really gets him is that the rhetoric surrounding our current budget situation is filled with inconsistencies. For example, he points out that those who are complaining about big budget deficits caused by the Obama administration's stimulus package are the very same people who are saying that the amount of the stimulus is actually too small and that more spending is needed to jump-start the economy. Those who decry the amount of spending in the stimulus bill are the very same people who think that nevertheless, the spending project in their own Congressional District is very worthwhile. Further, the congresspersons on the minority side who claim that budget reconciliation deprives them of their rights are the same congresspersons who backed the use of reconciliation when the executive branch was of the same party as their own. And finally, the financial institutions that cry socialism when the government puts limits on their activities after accepting federal money are the very same financial institutions that put limits on their customers' activities when granting a loan. Stan's advice to these flip-flopers is "pick one!"

But Stan was only getting started. In addition to inconsistencies, he's also angry about myths surrounding the Obama budget. The first myth is that earmarks are out-of-control spending. The reality is that earmarks are such a small percentage of the total budget

that we really should not bother to complain about them. Besides, the "pet projects" are important to people at the local level, whose project on studying pig odor, for example, could mean a great deal to the community. The second myth is that Obama is raising taxes in a recession. The reality behind this myth is that tax increases (which are actually a sunset of the Bush tax cuts) are set to occur in 2011. By 2011, the administration forecasts that the economy will actually be growing, not receding. The third myth is that the percentage of economic activity that originates from the public sector under the Obama budget is ushering in an era of socialism. Yet the reality behind this myth is that the percentage of activity that is public will increase from about 20 percent to 22 percent- hardly the 40 percent-50 percent level that exists in true socialist European countries.

At this point in his speech, Stan had got the anger off his chest (there is more on his blog capitalgainsandgames.com if you are so inclined) and was ready to calmly offer some observations and predictions on the Obama budget. Firstly is something that Stan has never seen before in his career- a "2 in 1" (Certs) budget that gives the President Obama political permission to spend large amounts of money in the short term and subsequently stop spending money to bring deficits down. The short term spending has been critiqued as overly ambitious, but Collendar points out that the administration must be ambitious because historically, the first year of a president's term is when the policy window is open to push an agenda through. A second observation is the surprising lack of gimmicks in the budget- it includes the cost of the wars in Iraq and Iran, the AMT (alternative

minimum tax), money for disaster relief, and bank bailout dollars- a level of transparency that is welcomed by many in budget analysis circles.

Stan's primary disappointment with the budget regards deficit reduction. Collendar predicts that after Obama's presumed legislative victories this year, next year will be all about deficit reduction including massive spending cuts and revenue enhancements. So don't be surprised if next year's AABPA Spring Symposium is titled, "Awesomely Sick Cheesy Budget Deficit Reduction!" (If you need a translation of that phrase, find the nearest teenager).

Getting the Performance Results and Transparency We Need.

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Productivity

When it comes to productivity, the more productive you are, the bigger the effect you can have on the money spent. “Just because we cannot get it perfect does not mean we have to abandon it. Also, why are other Western countries measuring government productivity and we are not?” Desenberg suggested two ways to improve productivity:

1. Competition would create a positive pressure, which in turn would help us to perform better.
2. Innovation: spreading best practices. Recovery.org is a good example of this.

He mentioned that it is possible to connect both ends of Pennsylvania Avenue. We need to find a way to put Congress at ease and show that they can monitor the White House, especially considering that each congressman has his/her own district interests. The Federal Sunset Act of 2008 serves this purpose.

Boldly Going Where No Man Has Gone Before

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horror stories.” So why not implement the top-down process? Top-down would allow the federal government to drive the process. Dr. Kettl mentioned that we could measure jobs created, though, problems may arise because there is stress across boundaries with the intergovernmental relationships.

Many in attendance at the symposium agreed with Dr. Kettl that the meltdown has sped up the transition process. He stated that the issues the government is facing lie beyond organizational capacity because of the cross boundaries. Accountability systems must be developed based on the boundaries. He affirmed that if government does not change the way it does business, it could risk failure and the rest of the world may question America’s ability to act as sovereign.

Dr. Kettl concluded that the current transformation in government is bigger than FDR’s New Deal programs and the successes of the Reagan Administration because, “They didn’t create strategies on governance.” This transformation is going back to the Constitutional Founder’s era, and is redefining the American social contract. Government is changing what it is, what it does, and how it will do it. It is going from “commanding to leverage on complex networks,” and from “hierarchy to transparency.” Dr. Kettl stated that the fundamental transformation will involve big issues, big puzzles, and big steps in government.

Dr. Kettl paused for a brief moment as the audience looked on at him. Reflecting back on his Star Trek reference at the beginning of his speech, he stated that transforming the American government entails “Boldly going where no man has gone before. Ladies and Gentleman, I think we’re there.”

Financial Regulation: What Went Wrong and Where Do We Go?

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Anne Khademian from Virginia Polytechnic Institute and State University reviewed some common themes in the discussion about financial regulatory reform, including the problem of regulatory capture and the tendency for innovation to outpace the government’s capacity to regulate. In addition, she recognized that the concept of systemic risk resulting from the increasingly global, interconnected nature of financial markets has complicated the regulation of the financial system. Given the broad and complicated nature of the problem, discussions about financial market regulation leave us with several big-picture questions, according to Ms. Khademian. Where should we focus our attention when it comes to regulatory reform? What are the goals of regulatory reform? Who should be accountable for allocating risk? Further, is consolidation and streamlining the answer? If so, how should the tasks be divided? Ms. Khademian suggested that the field of public administration should be active in discussions about how to evaluate, craft, and manage financial market regulation.

The speakers at the AABPA session provided insights into what led up to the current financial crisis, as well as suggestions for reforming the financial regulatory system. Some of the primary issues involve how to regulate companies that are “too big to fail” and how to manage systemic risk in an increasingly complex, global marketplace are, according to these experts. While these are among the themes emerging from the financial crisis, the answer to “where do we go from here?” is still unclear. Streaming video of this session and links to the two reports discussed above are available on the AABPA web site at www.aabpa.org.

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