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Recovery Act Oversight

Written Testimony of
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Subcommittee on Investigations and Oversight

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Mr. Chairman and Members of the Committee:

Thank you for the opportunity to testify today on Recovery Act oversight.

I am a research fellow with the Mercatus Center, a 501(c)(3) research, educational, and outreach organization affiliated with George Mason University.[1] Along with several colleagues at the Mercatus Center's Government Accountability Project, I have spent more than a decade working to encourage the development, adoption, and use of outcome-based performance measures in federal agencies.

Reliable performance measurement requires application of the scientific method to control for various factors that affect desired outcomes. Only by controlling for other variables can we determine how much of an observed result was actually caused by a federal program or a change in federal spending. Consequently, it is especially gratifying to see the Oversight and Investigations Subcommittee of the House Science and Technology Committee taking such a strong interest in Recovery Act oversight.

Outcome-oriented performance measurement isn't just a good idea; it's the law. The Government Performance and Results Act of 1993 (GPRA) requires federal agencies to produce strategic plans with performance measures, annual performance plans with performance goals, and annual performance reports that measure progress toward those goals. Measures are supposed to track the agencies' "outputs, service levels *and outcomes*."[2]

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[1] This testimony reflects only the views of the author and does not represent an official position of George Mason University. I would like to thank Stefanie Haeffele-Balch and Christina Forsberg for research assistance.

[2] GPRA Sec. 1115. Emphasis added.

Just this morning, we released the results of the Mercatus Center's tenth annual *Performance Report Scorecard*, which evaluates the transparency and quality of disclosure in agencies' annual GPRA performance reports.[3] The Scorecard evaluates the GPRA reports produced by the 24 agencies covered by the Chief Financial Officers' Act, according to 12 criteria derived from GPRA. Our evaluation produces a ranking, and some of the agencies at the top have become quite competitive over the past ten years. (Individual agency scores and rankings are available at www.mercatus.org/scorecard.) But we did not produce the Scorecard just because people like to read about rankings. Our work on government accountability seeks to:

1. Prompt federal agencies to improve the quality of information they provide about outcomes—the tangible benefits they produce for the public.

2. Promote the use of this performance information in federal agency decision making.

3. Encourage Congress to use GPRA performance information for oversight and budgeting.

There is ample evidence that the quality of performance information produced by federal agencies has improved a great deal. Based on the change our Scorecard has documented during the past decade, we estimate that the quality of federal agencies' GPRA reports has improved, on average, by at least 75 percent.[4]

Similarly, there is evidence that GPRA has encouraged federal agencies to use performance information. After controlling for other factors, agencies with higher Scorecard scores have higher percentages of managers who say they have outcome, output, or efficiency measures for their programs when surveyed by the Government Accountability Office (GAO). Agencies with higher Scorecard scores also have higher percentages of managers who say that they use performance information to manage their programs and activities.[5]

Unfortunately, there is less evidence that previous Congresses used GPRA performance information for oversight and budgeting purposes. For this reason, we welcome this subcommittee's focus on using performance data for Recovery Act oversight.

I would like to make three points in my testimony today:

1. The use of GPRA goals and measures to account for results of the Recovery Act, as the administration plans to do, is highly desirable. This increases the odds that

[3] The Mercatus *Performance Report Scorecard* is available at www.mercatus.org/scorecard.
[4] Maurice McTigue, Henry Wray, and Jerry Ellig, *10th Annual Performance Report Scorecard: Which Federal Agencies Best Inform the Public?* (Arlington, VA: Mercatus Center at George Mason University, 2009), pp. 12-13, www.mercatus.org/scorecard.
[5] Jerry Ellig, "Has GPRA Increased the Availability and Use of Performance Information?," Mercatus Center Working Paper No. 09-03 (March 2009). http://www.mercatus.org/PublicationDetails.aspx?id=26478.

taxpayers will get the maximum possible value for their dollars. The current approach would be improved if all agencies were explicitly required to (1) report outcome information for each program alongside cost information and (2) identify the amount of change in program outcomes caused by Recovery Act funding, either by devising measures that isolate the effects of the additional spending or conducting program evaluations that control for other factors that might affect outcomes.

2. Despite the substantial progress we have seen in GPRA reporting, many agencies' GPRA goals and measures still need substantial improvement if citizens are to receive a full, fair, and accurate accounting of what their Recovery Act dollars accomplish. Only 14 percent of Recovery Act appropriations went to agencies whose reports received a "very good" score on the Mercatus Center's *Performance Report Scorecard* for fiscal 2008. Congress can play a significant role in improving agencies' GPRA goals and measures by actually using GPRA performance information for oversight of both Recovery Act spending and all other federal spending. This would increase the incentive for agencies to produce and use good information, and it would reallocate scarce resources towards more effective programs.

3. Estimating the Recovery Act's effects on employment requires serious macroeconomic analysis that takes into account both the immediate and obvious employment effects of the spending and the not so obvious employment effects of the borrowing. Macroeconomic analysis of the Recovery Act's net effect on employment plays the same role that program evaluation plays in determining how much of the observed outcome was actually caused by a federal program. Calculating the net effect is important because some people may just switch jobs toward one created by federal spending. For this reason, it would be extremely inaccurate to portray only the employment created by the spending as the full effect of the Recovery Act on employment.

1. GPRA goals and measures are desirable for Recovery Act oversight

Office of Management and Budget (OMB) Director Peter Orszag's April 3 memo on Recovery Act implementation directs agencies to use their GPRA goals and measures for Recovery Act planning and reporting to the maximum extent possible.[6] Agency Recovery Act implementation plans must identify outcomes and outputs. Agencies are to report the program's targets for each measure with and without the Recovery Act funding, along with the difference—the incremental change in performance expected to result from the Recovery Act funding.[7] They must also "specify the length of the period between

[6] Peter R. Orszag, *Memorandum for the Heads of Departments and Agencies, Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009* (April 3, 2009), p. 18: "To the extent possible, Recovery Act goals should be expressed in the same terms as programs' goals in departmental Government Performance Results Act strategic plans."

[7] Orszag memo, p. 78.

measurements (e.g., monthly, quarterly), the measurement methodology, and how the results will be made readily accessible to the public."[8]

OMB also expects agencies to collect performance information from entities who receive funding: "To the extent possible, agencies should instruct recipients to collect and report performance information as part of their quarterly submissions that is consistent with the agency's program performance measures."[9] Finally, the agency must explain its "plans to organize program cost and performance information available at applicable recipient levels."[10]

This focus on linking Recovery Act expenditures with GPRA goals and measures is crucial to ensuring that taxpayers receive full value for their dollars. In particular, GPRA requires agencies to establish goals for outcomes. Outcomes are the actual benefits created, or harms avoided, for citizens. "*Outcomes are not what the program did but the consequences of what the program did*."[11] Outcome measurement is necessary if congressional and agency decisions are to be based on actual evidence of the effects of Recovery Act spending.

Full transparency requires accurate disclosure to the public of outcomes actually achieved. The most informative outcome indicators isolate the government agency's direct effect on the outcome from other causes and indicate how much of the change in the outcome was due to the government's action.

When such an indicator cannot be constructed, it is still often possible to measure outcomes and then assess the effects of government actions through comparisons of "treatment" and "control" groups, field trials, or statistical analysis that attempts to separate the effects of various factors.[12] This is the role of program evaluation. A program evaluation is defined as "an assessment, through objective measurement and systematic analysis, of the manner and extent to which Federal programs achieve intended objectives."[13] Under GPRA, agency strategic plans must identify program evaluations used to reevaluate goals and objectives and set forth a schedule of program evaluations. The agency's annual performance report must summarize the results of program evaluations concluded in that fiscal year.

A simple example illustrates why program evaluation is essential for true accountability. Suppose the Department of Transportation quickly uses Recovery Act money for road and bridge repairs that are completed in time for the summer driving season, and then we observe that there are fewer accidents on the roads during the ensuing summer months. It's plausible that the repairs contributed to the reduction in accidents, because previous

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[8] Orszag memo, p. 18.
[9] Orszag memo, p. 22.
[10] Orszag memo, p. 19.
[11] Harry P. Hatry, *Performance Measurement: Getting Results* (Washington, DC: Urban Institute, 1999), p. 15. Emphasis added.
[12] Office of Management and Budget, "What Constitutes Strong Evidence of a Program's Effectiveness?", http://www.whitehouse.gov/omb/part/2004_program_eval.pdf.
[13] 31 U.S.C. § 1115(f)(2).

DOT research finds that accidents are indeed correlated with the condition of roads. But we cannot simply assume that Recovery Act road projects caused all of the observed improvement in safety. Perhaps there were fewer cars on the road due to the recession, or maybe mild weather helped reduce accidents. Or maybe lower gas prices led to a big surge in summer driving compared to last year, so that the change in accidents between the previous year and the current year actually understates the improvement in safety caused by the road repairs. Accurate measurement of the effects of the spending requires a comparison of the actual observed results to a baseline—the results that would likely have occurred in the absence of the spending.

If we do not control for other factors that affect outcomes, we will not really know whether the Recovery Act projects caused the outcomes, or how much of the outcome they caused. Reported data on outcomes could either overstate or understate the effects of the Recovery Act on program outcomes. This insight is, of course, nothing more than Scientific Method 101—control for other factors that could affect the observed results. But it sometimes gets ignored when agencies report performance data and then presume the agency's actions are the only thing that caused the progress captured by the performance measures.

Mirroring GPRA, the OMB Recovery Act memo requires agencies to use GPRA's outcome goals and measures wherever possible, disclose results to the public, and explain plans for program evaluation. These are all positive steps that will promote accountability for results.

I can think of two possible improvements that would further promote accountability and transparency.

First, the OMB memo appears to leave agencies with the responsibility of deciding how they will inform the public about the GPRA outcomes produced by Recovery Act spending. One highly useful format would clearly juxtapose expenditures with results. There are several ways to accomplish this. One would be to require agencies to report outcome data alongside the expenditure data to be posted on Recovery.gov; spending and results would then be available from the same database. Another option would be to require agencies to report annually on how Recovery Act funding affected each outcome in their annual performance reports required under GPRA. If the administration, or individual agencies, decline to report on Recovery Act outcomes in a way that is linked to costs, then oversight committees could of course request that information from the agencies under their jurisdiction and make that information public.

Second, although the OMB memo mentions program evaluation, it does not underscore the central role program evaluation plays in determining how much of the change in an observed outcome was actually caused by a federal program rather than other causes. Agencies are required to explain their plans for program evaluation of Recovery Act spending, but they are not explicitly required to do program evaluation. More reliable estimates of the effects of Recovery Act funding would be available if agencies were required to perform program evaluations—perhaps for any program for which Recovery

Act spending exceeds some defined threshold. Again, if the administration does not require agencies to do this and they do not choose to do soon their own, requests from oversight committees could prompt action.

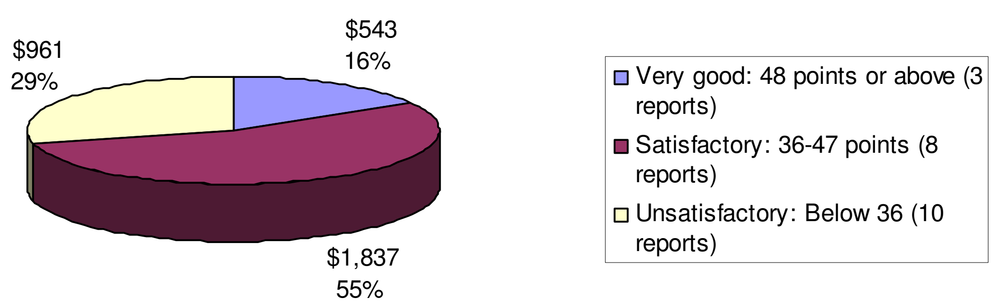
2. GPRA goals and measures still need improvement

Although the quality of agencies' GPRA reporting has improved substantially during the past decade, there is still a great deal of variation. For some agencies, reporting the effects of Recovery Act spending on GPRA goals and measures provides ready-made accountability. Other agencies, however, must significantly improve their GPRA goals and measures if they are to provide the "full transparency and accountability" promised on an early version of the Recovery.gov web site.

Figure 1 classifies the Recovery Act's $334 billion in appropriations (listed in Division A of the legislation) according to the scores each agency received on the Mercatus Performance Report Scorecard for fiscal year 2008. An expert team evaluates each report on 12 criteria derived from GPRA. On each criterion, the report receives a score that can range from 1 (no useful content) to 5 (best practice that other agencies should adopt). The maximum possible score is 60, with a minimum of 12. An average of 3 points on every criterion yields a score of 36, which could be considered "satisfactory."

Reports with scores in the "very good" range (48+ points) are most likely to achieve "full transparency and accountability." But as figure 1 shows, only 16 percent of the appropriations in the Recovery Act go to agencies whose reports met this standard in fiscal year 2008.

Figure 1: Recovery Act Appropriations ($Billions) and Quality of Disclosure



Source: Maurice McTigue, Henry Wray, and Jerry Ellig, *10th Annual Performance Report Scorecard: Which Federal Agencies Best Inform the Public?* (Arlington, VA: Mercatus Center at George Mason University, 2009), p. 3, www.mercatus.org/scorecard.

About 55 percent of appropriations go to agencies whose reports received a "satisfactory" score of 36 or better in fiscal year 2008. Almost one-third of Recovery Act appropriations go to agencies who achieved unsatisfactory scores. Thus, a substantial portion of Recovery Act funding goes to agencies whose GPRA goals and measures do not yet provide adequate accountability for results.

Congress could play a helpful role in improving the quality of performance reporting. Between fiscal year 1999 and fiscal year 2008, the quality of GPRA reports tended to improve more at agencies where lower percentages of managers surveyed by the Government Accountability Office (GAO) identify "lack of ongoing congressional commitment and support for using performance information" as a hindrance to performance management.[14] If oversight committees express a clear interest in obtaining accurate, valid, outcome-oriented GPRA measures to evaluate program results, then agencies will likely respond by improving the quality of their GPRA measures.

3. Ascertaining the Recovery Act's effects on employment requires serious macroeconomic analysis

The Recovery Act seeks to promote economic recovery in addition to accomplishing specific program goals. The Act proposes to measure recovery in two different ways. First, the Council of Economic Advisers is responsible for measuring the effects of the Recovery Act on "employment, estimated economic growth, and other key economic indicators" in quarterly reports to congressional appropriations committees.[15] Second, recipients of funds are supposed to report the number of full-time equivalent jobs created or retained as a result of Recovery Act spending.[16]

There are some practical problems with measuring how many jobs are created or retained as a result of the spending. The April 3 Peter Orszag memo provides definitions for "created" and "retained," but it simply says recipients of funds are to provide estimates of jobs created or retained without providing guidance on how to calculate a credible, accurate, and verifiable estimate. It is not clear how Congress and the public are to know whether the jobs recipients claim they created or retained really were created or retained *because of* the Recovery Act spending.

In contrast, GPRA has a much stronger requirement for agency performance measures. The law does not simply assume Congress and the public must take it on faith that the reported measures accurately reflect results. Rather, agencies must "describe the means to be used to verify and validate measured values."[17] Ideally, agencies should provide sources for all performance data and the underlying analysis that produced it so that Congress, inspectors general, GAO, auditors, and interested members of the public can ascertain for themselves whether the performance data are accurate.

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[14] McTigue, Wray, and Ellig (2009), pp. 30-31.
[15] Recovery Act, Sec. 1531a.
[16] Orszag memo, p. 23.
[17] GPRA Sec. 1115.

Several steps are needed to apply this principle to job data reported by recipients of Recovery Act funds. First, agencies should require recipients to present credible explanations of how the Recovery Act funding caused the jobs to be created or retained, rather than just reporting their estimates. Second, agencies should explain how they verify and validate the jobs data reported by the recipients. Third, the Recovery Accountability and Transparency Board should use random audits to confirm the accuracy of the reported information. Fourth, the administration should make all of this information available for public scrutiny via Recovery.gov. If agencies and the board do not do these things, oversight committees could prompt action by asking for this information.

Those steps would help ensure the accuracy and verifiability of the job data reported by funding recipients. However, data on the number of people the funding recipients hired or retained does not tell us the net effect of the Recovery Act on employment, for two reasons.

First, nothing in the legislation or the reporting process guarantees that the people hired as a result of the spending are people who would otherwise have been unemployed. It is quite possible that some of the people hired with Recovery Act funds will simply be switching from some other job. If a person switches jobs as a result of Recovery Act funding, total employment does not increase unless the person's former employer hires a replacement. We will not know whether this happens, because there is no provision for it in the reporting process.

Second, the money borrowed to fund the spending and tax breaks in the Recovery Act is not "free"; it has alternative uses. Since the federal government will borrow an additional $787 billion to fund the Recovery Act, there is $787 billion less available in the capital markets to be used for other public or private purposes. To understand this, we need not venture into the economics jargon about "multipliers" and "crowding out." Deep down, we all know that using money for one purpose means that the same dollars cannot be used for some other purpose. The reason the Recovery Act was limited to $787 billion, instead of $1 trillion or $5 trillion, is that all responsible decision makers know we give up something when we decide to spend money for one thing instead of something else.

Pulling $787 billion out of the capital markets will have some kind of effect on U.S. employment and economic growth. Economists who specialize in macroeconomics will hotly debate whether this effect is large or small. The better ones will analyze the data as it comes in to figure out what's actually happening. I am not here today to argue that this effect will be large or small, because macroeconomics is not my area of specialization. My only point is that we will not know the true effect of the Recovery Act on employment unless we take into account the effect of the borrowing on economic growth and employment.

This is information that the recipients of the funding cannot be expected to know or report. Therefore, it is inevitable that the data on jobs created and retained will overstate the effects of the Recovery Act on employment even if the data truthfully and accurately reflect the number of jobs created or retained as a result of the spending. This point is worth emphasizing because it will be very tempting to assume that the raw data on jobs measures the full effect of the Recovery Act on employment. In fact, the numbers generated by this reporting will not tell the whole story.

As an economist, I do not have much confidence in economists' prediction—particularly macroeconomic attempts to make predictions about the overall economy. But I'll offer a two-part macroeconomic prediction that I'm willing to stand behind: America will have an economic recovery sometime, and the recovery will be caused by a variety of factors. Just as program evaluation helps determine how much of the observed outcome was caused by a federal program, so too is macroeconomic analysis necessary to determine how much of the recovery is caused by the Recovery Act and how much is caused by other factors. I presume this is why Congress chose to require those quarterly reports from the Council of Economic Advisers in addition to the jobs reporting requirements for funding recipients.

The bottom line: To assess the Recovery Act's effects on employment, keep your eye on the macroeconomic analysis.

Conclusion

It is especially appropriate for the oversight subcommittee of the Science and Technology Committee to concern itself with accountability for results under the Recovery Act. Full and accurate accountability for results requires application of the scientific method to determine how much of the change in outcomes was actually caused by federal programs and Recovery Act spending.

The administration's proposal to use GPRA goals and measures to evaluate the effects of Recovery Act spending is an excellent one. Accuracy and transparency would be improved if agencies reported outcome information along with cost information and OMB explicitly required agencies to assess how much of the change in outcomes is directly attributable to Recovery Act spending. Many agency GPRA goals and measures still fall short of providing full accountability for outcomes, and agencies need to improve these to ensure full accountability for program outcomes affected by Recovery Act spending. Finally, both the administration and Congress should apply the same fundamental program evaluation principles to assess the Recovery Act's effects on economic recovery and employment. Accurate assessment of the Recovery Act's effect on employment requires valid and verifiable job data combined with macroeconomic analysis to determine how much of the employment change was actually caused by the Recovery Act rather than other factors.