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NPR 56

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

ROUTE SLIP

TO Alan Blender	Take necessary action ☐
	Approval or signature ☐
	Comment ☐
	Prepare reply ☐
	Discuss with me ☐
	For your information ☒
	See remarks below ☐
FROM Alice Rivlin	DATE

REMARKS

*U.S. Government Printing Office: 1991 — 298-539

OMB FORM 4
Rev. Jul 91

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

FOR IMMEDIATE RELEASE
November 16, 1993

Contact: Barry Toiv
(202) 395-7254

STATEMENT BY OMB DIRECTOR LEON E. PANETTA ON CONGRESSIONAL BUDGET OFFICE SCORING OF NATIONAL PERFORMANCE REVIEW SAVINGS

Rare is the legislation on which the Congressional Budget Office and the Office of Management and Budget do not have scoring differences. Given the nature of the reforms the Administration is performing, I am not surprised that CBO's technical rules cause significant scoring differences on this legislation. Nevertheless, we believe our estimates are solid, and we stand by them.

Several facts should be noted.

First, CBO scoring on this measure is over five years; OMB scoring was over six years. OMB scoring of the legislation over a period comparable to that used by CBO would be $5.9 billion in outlays, not $9 billion.

Second, much of the remaining difference is over the scoring of buy-outs to reduce the Federal workforce, particularly the direct payments to workers. The Administration's plan would force the agencies to fit those payments under the very tight discretionary spending caps and reduce other spending to accommodate them. Thus, the ultimate cost would be zero.

Moreover, scoring rules aside, it should be clear that reducing the Federal workforce by 252,000, even with the use of a buyout, will produce very substantial long-term savings for the taxpayer, as well as greater efficiency in government.

Third, CBO did not score about half a billion dollars from the elimination of the wool and mohair program because that provision has been enacted into law since the Administration proposed it. Clearly, however, those savings are real and have been achieved.

Fourth, CBO has chosen to assign a cost to reforms that will actually reduce the flurry of spending that agencies often conduct at the end of the fiscal year to avoid losing any of their money. Those reforms will prevent wasteful spending and avoid added costs for the taxpayer.

Finally, these reforms have been proposed by the National Performance Review to make government operate more effectively and efficiently. They should be adopted because they will make government work better. The exact amount of money they will save is not nearly as important as the improvements they will bring about in the operations of government.

# # # # #

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

DATE: 11/16

TO: Leon

FROM: ASSISTANT DIRECTOR FOR BUDGET REVIEW

Here's a copy of talking points on the major difference between OMB & CBO on scoring H.R. 3400.

Barry

c: Alice
John

MAJOR DIFFERENCES BETWEEN CBO AND OMB ESTIMATES FOR H.R. 3400

OMB estimated six-year savings of $9 billion from the H.R. 3400, the Government Reform and Savings Act of 1993; five-year savings of $5.9 billion. CBO estimated a cost of $811 million over five years from H.R. 3400. CBO estimated Pay-as-you-go savings of $50 million over the 1994-1998 period; OMB estimated Pay-as-you-go savings of $859 million for the same period. The major differences between OMB and CBO estimates are as follows:

Buyout bill

CBO scored a direct spending cost of $519 million due to estimated increases in payments from the civil service retirement fund. OMB scored no direct spending cost because the buyout bill does not change the law relating to the retirement of federal employees. The Administration treats retirement costs as indirect effects that should not be scored under the Budget Enforcement Act.

CBO scored $1,975 million in increased costs funded by annual appropriations for incentive payments. The Administration policy assumed that the costs of incentive payments would be fully absorbed within existing appropriations -- that there would be no added cost.

Year-End-Spending

CBO estimated a cost of $687 million due to the extension of availability of currently appropriated funds that would otherwise lapse. OMB had assumed no lapse in funding in the FY 1994 President's Budget. The BEA requires OMB to use the technical assumptions presented in the most recent budget in estimating the costs of legislation. OMB therefore assumed no cost to the Year-end-spending provision.

Wool/Mohair Subsidies

The Administration included the NPR proposal to eliminate Wool/Mohair subsidies in its October legislative proposal. This legislation has subsequently been enacted in P.L. 103-130. OMB assumed savings of $515 million. CBO scored savings from P.L. 103-130 of $505 million.

Disability Review

CBO would not score savings for H.R. 3400 proposal to earmark funds for disability reviews for Social Security. OMB has assumed savings of $333 million. The Administration has prepared revised language that according to CBO's preliminary indication would be scored.

Estimating differences

OMB and CBO estimates of savings from proposed reforms to HUD's multi-family property disposition and USDA reorganization differ from OMB's estimates. CBO scores savings of $425 million and OMB of $715 million for property disposition. CBO scores savings of $849 million and OMB of $1,173 million for the USDA reorganization proposal. Such estimating differences for complex proposals are to be expected.

Language not scored as resulting in savings

H.R. 3400 language proposals to reform Medicare claims processing and to expand DOD's authority to sell recyclable materials were not scored by CBO on the grounds that CBO could not link savings to the specific provisions contained in the bill. More explicit language would be required for CBO to score savings for these provisions.

file: NPR

THE WHITE HOUSE

WASHINGTON

LDT
JES
ASB

October 1, 1993

MEMORANDUM FOR THE HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

SUBJECT: Implementing Management Reform in the Executive Branch

The National Performance Review has examined how well the government serves its citizens, where it can improve, and where it is necessary to make fundamental changes to make government work better. It has presented its findings and recommendations -- including the adoption of new management principles and structural reforms -- to improve government throughout the Executive branch.

In order to establish and implement more effective and efficient leadership and management principles throughout the Executive branch as identified in the National Performance Review, I hereby direct the following:

1. <u>Establish Chief Operating Officers</u>.

Each agency head shall designate a Chief Operating Officer, who shall be the Deputy or another official with agency-wide authority. The Chief Operating Officer shall report directly to the agency head and shall be responsible for:

(a) implementing the President's and agency head's goals and the agency's mission;

(b) providing overall organization management to improve agency performance;

(c) assisting the agency head in promoting ongoing quality improvement, developing strategic plans, and measuring results;

(d) directing ongoing reengineering of the agency's administrative processes;

(e) overseeing agency-specific application of performance measures, procurement reforms, personnel reductions, financial management improvements, telecommunications and information technology policies, and other government-wide systems reforms adopted as a result of the recommendations of the National Performance Review; and

(f) reforming the agency's management practices by incorporating the principles of the National Performance Review into day-to-day management.

2. Implement Additional Agency Reforms.

Each agency head shall identify and implement additional changes within the agency that will promote the principles and standards of the National Performance Review and the strategic and quality management approaches described by the Federal Quality Institute's "Presidential Award for Quality" or its successor award(s).

3. Establishment of President's Management Council.

In order to advise and assist the President and the Vice President in ensuring that the reforms adopted as a result of the National Performance Review are implemented throughout the Executive branch, I hereby establish the President's Management Council ("The Council"). The Council shall comprise the:

(a) The Deputy Director for Management, Office of Management and Budget;

(b) The Chief Operating Officers from the following agencies:

(1) Department of State;

(2) Department of the Treasury;

(3) Department of Defense;

(4) Department of Justice;

(5) Department of the Interior;

(6) Department of Agriculture;

(7) Department of Commerce;

(8) Department of Labor;

(9) Department of Health and Human Services;

(10) Department of Housing and Urban Development;

(11) Department of Transportation;

(12) Department of Energy;

(13) Department of Education;

(14) Department of Veterans Affairs;

(15) Environmental Protection Agency;

(c) The following central management agency representatives:

(1) Director of the Office of Personnel Management;

(2) Administrator of General Services;

(d) Chief Operating Officers of three other Executive branch agencies designated by the Chairperson, in his or her discretion;

(e) Secretary of the Cabinet; and

(f) Such other officials of Executive departments and agencies as I may, from time to time, designate.

The Deputy Director for Management of the Office of Management and Budget shall serve as Chairperson of the Council. The Chairperson of the Council shall appoint a Vice-Chairperson from the Council's membership to assist the Chairperson in conducting the affairs of the Council.

I also establish an Executive Committee of the Council. Members of the Executive Committee shall be: the Chairperson; the Vice Chairperson; the two central management agency representatives; two Chief Operating Officers serving on the Council, whom I shall designate, and any additional Council members whom I may, from time to time, designate.

The Chairperson shall convene meetings of the Council, which shall be held at least once a month.

The functions of the Council shall include, among others:

(a) improving overall Executive branch management, including reform of government-wide management systems, such as management controls, financial management, personnel, budgeting, and procurement;

(b) coordinating management-related efforts to improve government throughout the Executive branch and, as necessary, resolving specific interagency management issues;

(c) ensuring the adoption of new management practices in agencies throughout the Executive branch; and

(d) identifying examples of, and providing mechanisms for, interagency exchange of information about best management practices.

The Council shall be provided with appropriate staff support and other resources as may be necessary to carry out its duties. In addition, the Federal Quality Institute shall serve as a resource to the Council.

The Council shall seek advice and information as appropriate from nonmember Federal agencies, particularly smaller agencies. The Council shall also consider the management reform experience of corporations, nonprofit organizations, State and local governments, government employees, public sector unions, and customers of government services.

Agencies shall cooperate with the Council and provide such assistance, information, and advice to the Council as the Council may request, to the extent permitted by law.

4. Independent Agencies.

Independent agencies are requested to adhere to this directive.

5. Judicial Review.

This directive is for the internal management of the Executive branch and does not create any right or benefit, substantive or procedural, enforceable by a party against the United States, its agencies or instrumentalities, its officers or employees, or any other person.

6. Publication.

The Director of the Office of Management and Budget is authorized and directed to publish this memorandum in the Federal Register.

William J. Clinton

MEMORANDUM

COUNCIL OF ECONOMIC ADVISERS

September 10, 1993

TO: ALAN BLINDER

FROM: MATTHEW SHAPIRO MS

SUBJECT: Macroeconomic Impacts of Reinventing Government

The Administration is considering sending a package of legislative proposals from the National Performance Review. A selection of items requiring legislation--repealing the honey bee subsidy, indexing criminal fines to the rate of inflation, etc.--would be sent to the Congress in October.

The total amount of revenue increase or spending reduction would amount to $10 billion. *The OVP is uncertain whether this would be in FY94 or spread over 5 year. A cut of $10 billion in FY94 could amount to $50 billion over 5 years if the changes are permanent. I do not believe they have thought through this issue.*

The OVP asks the question: Are there macroeconomic impacts to such changes. A $10 billion swing in 1 year is about half the stimulus package. Perhaps these spending changes would have smaller multipliers than construction projects and training expenditures in areas of high unemployment, but I think it would be hard for us to argue that the macroeconomic effects are not noticeable after fighting for the stimulus.

The OVP wants some memo from us by Monday, September 13 giving our views. Even if we would be inclined to push at the margin for stimulus rather than cuts, I think this would be a hard one to oppose. The programs are ones we would like to see changed. Moreover, there is a view that this package could be part of the pay-back to the deficit hawks who supported the President on the budget.

I will try to clarify the issue of the interaction between size and timing of the budget reductions. What reply should I draft?

cc: LDT, TOD, JB

September 2, 1993

To: NEC/NPR MEMBERS
From: Gene Sperling
Subject: Use and Articulation of NPR Savings

Everyone who has been part of the NPR savings discussion -- including the President -- is in agreement that it is critical that we determine 1) how the funds should be allocated (investments versus deficit reduction and if investments, which ones) and 2) how the purpose of the NPR savings are articulated publicly.

This memo is designed to frame a discussion so that we can be prepared to go to the President.

I. DEFICIT REDUCTION AND NEW INVESTMENTS:

Most -- if not all -- of the members of the NEC believe that we have achieved all of the deficit reduction over the next five years(or at least over the next three) that the economy can handle, and that we are best off economically trying to target new savings from spending cuts to new investments.

The overall goal therefore is to do as much targeting of savings toward new investments as is politically feasible. The two political constraints we face is, one whether the President has made commitments that require more deficit reduction; two, whether Congressional politics or larger public sentiment require more deficit reduction than we prefer on economic and priority grounds. This leaves three interpretation:

No commitment: One view is that we have made no specific commitment to deficit reduction -- beyond perhaps the rescission bill for FY1994 -- and that we can interpret what we said any way we can get away with. This view is that different people have different views of what we are supposed to do, and at the worst, there is enough conflicting signals out that we should simply do what we think is the best policy and that we can defend it.

Marginal Commitment: This view is that we have some commitment to deficit reduction, but it is marginal. Some feel that some members of Congress may feel that there is an overall sense of a commitment to cut $10 billion -- if not in the rescission -- than over the next five years. Thus, would have to target some funds to deficit reduction, but only a marginal amount.

Serious Commitment: This view is that regardless of our policy views, the pressure for deficit reduction is so great, that we will be compelled to at least accept something like a 1:1 ratio for deficit reduction for spending.

Comments: We may get hit for deficit reduction regardless of whether we spend 100% or 50% on new investments and our political success will depend less on what percentage of our savings goes to deficit reduction, and more on simply how well we do in defining NPR in the right way.

It also may be the case that regardless of whether or not we are going to take a hit for using the savings for new investments, the caps are so tight that we have no choice if we are committed to having a growth plan that relies on new investments and job creation as well as deficit reduction.

Two ways that may exist to continue to speak about deficit reduction, without a specific commitment would be one, to say that this will go to funding new investments without taxes or hurting the deficit reduction goals, but that we may seek deficit reduction later depending on the strength of the economy.
The second way is to talk about using some of the funds for health care, which could then blend in with the President's overall goals to have health care have some effect on lowering the deficit in the 5th–7th year.

II. PRESENTATION: In considering the presentation and articulation of using the NPR savings for new investments, it is helpful to consider two basic scenarios.

Scenario #1: We announce an NPR savings number. Republicans immediately claim that all of the savings should go to deficit reduction. We then state that much if not all of it should go to new investments. They reply that they are for new investments, but that first we should try to achieve the NPR savings number for deficit reduction. At this point, ironically, we find ourselves in a debate where we are cast as spender versus deficit reducers, even though they have never given specific reduction, and we are the ones coming forth with tens of billions of controversial cuts.

Scenario #2: We start out by setting the context:

1. We have put forth the largest deficit reduction package in history with $255 billion in spending cuts.

2. We state, however, that we have not done all we want, because we believe that in the process of record deficit reduction, we gave up some of our investments in things everyone supports: better education, 100,000 police, welfare reform.

3. Thus, the new question is whether we can achieve these things that all of us know we must do, without as Howard stated touching one penny of the $500 in the deficit reduction trust fund and without raising one penny in taxes (at least outside of the health care context)

This setting creates an entirely different context. From here, the question we provoke is not deficit reduction versus new investments, but whether we can achieve all of the rest of Clinton's goals through spending cuts. The focus in on whether a Democrat can achieve investment goals through spending cuts only, while preserving deficit reduction.

That is a debate and a context we want. Most of us feel that at some point we must shift focus away from simply who can cut the most to a more pro-active investment and growth agenda. This context helps us shift our focus back to the investment agenda the Clinton-Gore team ran on, but it does it in the context of spending cuts, and making government work better.

We need to change the way government does business: that means government must be leaner and more efficient so that we can provide people with more and better services while protecting every penny of the deficit reduction goals and not raising taxes to pay for new investments.

Recommended Presentation: As the NPR team has spent weeks working on the overall presentation of the plan, this discussion is clearly limited to the NPR savings issue.

My recommendation is to go in the direction of the Scenario #2 presented above.

BUDGET MESSAGE: That means we must be adamant about getting out the budget message -- that our deficit reduction was historic, that there were $255 billion in spending cuts, and that we do not believe the economy needs more deficit reduction.

INVESTMENTS-- HALF FULL: We must state that while we have achieved many important investments, there are many critical needs that we cannot afford without additional savings that are imperative to a growing economy, a strong middle class and job creation.

SPENDING CUTS MUST BE USED FOR NEW INVESTMENTS SO THAT NO TAXES ARE RAISED AND THE RECORD DEFICIT REDUCTION PROGRAM IS PRESERVED: This is where we can center our message on spending cuts, by talking about the need for government to do new things by cutting government elsewhere and making it work better.

Two Notes:

1. We should talk about funding new investments not meeting the caps: When we talk about reinvestment, we should say that it is to reach the Clinton-Gore investment goals and preserve our deficit reduction package, not to meet the caps. "Meet the caps" will be interpreted by opponents as proof that our $496 billion was not real, and if we do not get all of the NPR savings, it will be used to signify that we did not really reach our deficit reduction targets. While using the NPR savings to pay for the February 17th investments, will be interpreted by the agencies as "meet their caps" for the public it will be a cleaner message that will not cast doubts on our deficit reduction package.

2. Targeting to New Investments Blends NPR Savings in with Overall Budget Effort Meet Our Goals: By speaking of using the savings for new investments, we would blend in the NPR cuts conceptually with the overall efforts by OMB to pay for our investments. This would lead to less of a "how much did you get from NPR scorecard" and more a focus on whether we were able to find cuts to get our investments. Thus, if we did not get all of the NPR cuts over the years, we could still talk about the other cuts we found to show that we found additional cuts where our initial NPR ones did not get through.

III. HOW SAVINGS SHOULD BE TARGETED:

Option 1: Announce Net Additional Cuts and Announce General Ratio: Under this option we would announce the net additional savings and then say that a certain ratio would go to deficit reduction and certain ratio would go to new investments. The most logical ratio would be $1 for new investments, $1 for health care, and $1 for deficit reduction.

The pro of this would be is that it would be targeting some funds for new investments while still meeting the public expectation that some of the NPR would be for deficit reduction. There are two major downsides. One, the caps are so tight that even a 1/3 1/3 1/3 ratio might be too restrictive, and be a precedent that we would have hard to live up to.

Two, and probably the most important is that if we were to announce $75 billion in NPR and say that there was a 1:1:1 ratio, Republicans might lock in on the $25 billion in extra spending cuts for deficit reduction, and say that before we have to do any new investments, we need to first meet this commitment. Therefore on the whole, a ratio might not be advisable.

Option 2: Announce Net Additional Cuts and Give General Guidelines for How the Money would Be Used: Under this option, we would give
say that some of these funds would be used for new investments; some would be used as back-ups spending cuts in case Congress rejected some of the specific spending cuts we would propose in the budget, and that some might be used for deficit reduction depending on the macroeconomic factors at the time. The pro here is that it would give us maximum flexibility. The con is that without a clear description of where the savings will go, the pressure may be too strong to commit it all to the deficit reduction trust fund.

Option 3: Announce Net Additional Cuts and Say the Money would Be Dedicated to Health Care: The benefits of this is that in terms of substance, it gives more savings to be used for health care, that will then take pressure off us to cut Medicaid, raise sin taxes or rely too much on the scoring from restrictive caps. This would also be a way of using NPR

savings for investments, while still tying it into the need for deficit reduction. The link could be that we need universal coverage before we can get the full costs control advantages we need for deficit reduction.
Message-wise, this would have the benefits of bringing coherence to the fall: the cuts in NPR would be used for the health care plan being debated at the same time.

The downside is that this hurts the rest of our investment agenda as much as if all the savings were being dedicated to deficit reduction. It would be taking away non-health related savings that were greatly needed for new investments. Furthermore, it may have only a marginal effect on the health care financing issue, while those savings could play a vital role in the success of our technology or childrens or training proposals.

Option 4: Announce Net Additional Cuts and Dedicate the Funds to Three or Four Popular Investments: (Training and Goals 20000, welfare reform, 100,000 cops, and Defense Conversion): The benefit of this approach is that we would clearly be stating from the start that these new savings to new investments, and not leaving it open to speculation. Furthermore, if we choose popular investments, it may be harder for those who want more deficit reduction to attack us. If we make clear we are talking not about new big spending programs, but instead popular things that people want -- like more cops and better education -- it will be easier for us to directly defend our use of these savings. Furthermore, as the Vice President has noted, there is a confluence of events that make support for a dislocated worker training program particularly viable in light of NAFTA. A sub-option is to use include health care as simply one of the investments that the savings will be used for.

The downside is that the public does not believe that we have currently called for any spending cuts, and if we are now calling for spending cuts only for new investments, many in the public will continue to believe that we have not reduced the deficit at all through spending cuts.

Possible Investments:

1. Dislocated Worker Training Initiative: Benefits: High presidential priority, jobs message and NAFTA and possible Republican support if seen as linked to NAFTA. Also, it could tie in with UI extention.

2. UI Extention: October 2 date and no funding sources as of yet

3. 100,000 Cops: Benefits: High Presidential priority, crime is major public concern, and it is hard to label putting cops on the street as big spending.

4. Defense Conversion: Benefits: High Presidential priority, fits notion of transferring cuts $1 for $1 to new investments. Popular in major states -- particularly California that are hurting -- and hard to label helping Cold War heros as big spending.

5. Jobs Bill: This would take worker training and put together with a tight package of investments that are tightly related to jobs, with no appearance of pork. (Defense conversion, small business exporting initiative, manufacturing extention, highways, worker training, school-to-work) Rahm has especially been pushing for this option.

6. Welfare Reform: Benefits: Very high Presidential priority; has never been given a funding source, could be major item on 1994 State of the Union; advisors believe this is key issue.

7. Goals 2000 and Other Education Proposal such as School-to-Work Apprenticeships: High Presidential Priority, the classic putting people first investment, popular with public and we have been very quiet on education in our first year.

8. Children's Investments: (Head Start, WIC, parenting, Safe Schools) High Presidential priority, hard to oppose (Dole, Domenici and Nunn have all called for more investments in the past)

9. Children's Tax Credit: Bruce Reed believes we should consider using savings for children's tax credit. Could be a counter proposal if retroactivity picks up steam.

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20500

MEMBER

August 20, 1993

MEMORANDUM FOR ELAINE KAMARK
JACK QUINN
MARLA ROMASH
GREG SIMON

FROM: JOSEPH E. STIGLITZ

SUBJECT: NPR Final Report August 13, 1993 Draft (Introduction and Chapters 1-5)

Thank you for the opportunity to comment on the draft final report of the National Performance Review. It is terrific! I am particularly enthusiastic about the report's emphasis on using competition and market-like mechanisms to ensure production efficiency within government agencies, and the report's strong endorsement of performance standards rather than input measures -- both as a sensible way of encouraging low cost, high quality performance from government agencies and as a sensible way of ensuring low cost and effective regulatory compliance by regulated firms. I am also impressed with the quality of the writing; remarkably, for a government document, the report is a pleasure to read. In this report, the National Performance Review has successfully shown, by its willingness to make controversial recommendations, the spirit of innovation and change it seeks to inculcate throughout the government.

I have several suggestions for improving the draft, which are set forth below.

1. The report's emphasis on the importance of customer service by government agencies is a salutary one. But the key qualification -- that not all agencies deliver services -- is buried on page 14 of the draft Chapter 2. As the report in effect notes there (in the context of identifying the types of agencies that should be encouraged to compete), agencies that deliver services should be given incentives to become "obsessed with their customers" (as the draft Introduction puts it on page 8), but agencies that regulate or develop policy are less usefully conceived in that framework. Because the audience for the report includes the agencies themselves, as well as the American people, the discussion in the Introduction should clarify that it applies primarily to the many agencies that deliver customer services. Introducing this qualification would not seriously undermine the general applicability of the report's analysis and recommendations, because such agencies account for most non-defense government spending and for the vast bulk of the contacts the typical citizen has with government.

2. Especially in Chapter 1, the report calls for greater management discretion in procurement, program design and hiring, and less oversight and review of the managerial exercise of these functions by Congress, OMB and Inspectors General. These recommendations emerge from a plausible diagnosis that centralized and heavily audited procedures have stifled innovation and led to waste. Many of the procedures that are recommended for the scrap pile do serve a useful purpose, however, in protecting against fraud and abuse. In freeing government agencies from the shackles of the existing procedures, the report surely does not intend to remove all controls against misuse of government funds and government position. Accordingly, it would be useful for the report to note the importance of intergovernmental oversight, and for the report explicitly to encourage OMB to develop new procedures to ensure accountability without impeding flexibility. This discussion might be placed around page 23 of the draft Chapter 1, where the draft mentions the development of an "accountability report."

3. The draft report recognizes that most government work is hard to measure correctly (draft Chapter 1, page 34). One reason is fundamental: unlike private sector organizations, which have the sole goal of maximizing profits, public sector organizations typically serve multiple goals (e.g. effective service provision, cost-minimization, fairness, etc.). Accordingly, it will often be inherently difficult to identify successful organizations' and reward them. I do not disagree with the report's view that it is worth trying to do so, and that this can often successfully be accomplished; my suggestion is merely that the report acknowledge the fundamental reason for the difficulty.

4. On page 34 of draft Chapter 1, the report says "No outcome measure is perfect, but even imperfect ones are better than none." As a technical matter, the sentence is not true as written. If schools teach students with the sole goal of raising scores on standardized tests, for example, some teachers might overemphasize test-taking skills. Introducing that imperfect measure might improve some schools, but it might lower the quality of others. For this reason, the report might instead say "even imperfect ones are <u>generally</u> better than none" and add that agencies must work as hard to improve their performance measures over time as well as improving service delivery.

5. A similar point about outcome measures applies to evaluating workers, and provides an additional reason, beyond those already indicated on pages 8-13 of draft Chapter 1, why decentralizing personnel policy is a worthy idea. Many government jobs, including most in the Council of Economic Advisers, rely heavily on teamwork. If CEA employees were evaluated on the number of pages they wrote or the number of meetings they attended, they would not necessarily increase their productivity because other,

more relevant dimensions of their performance would not be measured. (We cannot readily tell, for example, whether CEA employees influenced the behavior or decisions of other Executive Branch groups, including whether these comments influenced the NPR report.) Even if the success of the team as a whole can be measured, moreover, financial incentives based on group performance may not strongly influence individual behavior. Under such circumstances, either agency organizations must be reconfigured to permit some employees to be evaluated by a performance measure, facilitating the introduction of strong individual performance incentives at the loss of some teamwork benefits, or evaluations must continue to be made on a subjective basis. Either way, a decentralized personnel system would appear beneficial. The argument in favor of such a system on pages 8-13 would benefit from discussion of these issues.

6. Page 9 of draft Chapter 2 calls for open bidding by public and private organizations for the right to operate one-stop career centers. This is a sensible method of introducing market incentives to keep costs low and quality high when a service will be provided by a single firm, and I am delighted that you endorse it. The proposals raises two important implementation issues, however, that are not addressed: for what term will the winning bidder be allowed to operate the career center, and will an incumbent operator be given preference on rebidding? If the winning bidder is expected to make significant investments in order to make the career center a success that cannot be recovered should that bidder not win the next contract (e.g. in training its own employees, or developing programs suited uniquely to its service area), either a longer bidding period or preference in rebidding is called for in order to ensure that the winner has sufficient incentives to make such investments. The draft might want to signal this issue, without engaging in a complex analysis, by revising the first sentence of the third full paragraph on page 9 of draft Chapter 2 to say "Any organization, public or private, will be able to bid to operate one or more one-stop career centers <u>for an appropriate term</u>."

7. The rhetorical flourish on page 13 of draft Chapter 2, "Economists don't agree on much, but they do concur that ..." is untrue. Economists may not always agree on policy conclusions, but we do agree on the conceptual framework, and on the importance of using the correct conceptual framework for analysis. Please edit this sentence to say "Economists concur that ...."

8. Developing a new cost-accounting system is a good idea, but it is too strong to say that a "full-cost" cost-accounting system will "assign ... [all] costs to the unit that actually incurs them" and enables us to determine the "true costs" of what the government produces. (Draft Chapter 2, page 19.) It is widely understood by economists that the allocation of common and fixed

costs is inherently arbitrary, that there is often no unique way to identify which unit "actually incurs" an expense, and that there typically is no such thing as the "true cost" of production for a good or service. This is not to say that cost accounting is useless; the point is that cost accounting, however valuable, is inherently arbitrary. For this reason, I recommend removing the word "actually" from the phrase "actually incurs," and the word "true" from "true costs."

9. The discussion of the recommendation favoring a corporation to administer the air traffic control system (draft Chapter 2, page 22) should add that the new corporation should have the authority to leverage its revenue stream through borrowing. As I explain in more detail in the attached memorandum on FAA restructuring, borrowing authority will permit the new corporation to adhere to a sensible investment plan, and ensure that the new corporation is not hamstrung if a recession reduces air travel and, in consequence, produces a shortfall in revenues.

10. Allowing parks and other federal facilities to set fees confers a number of advantages, as the report notes on pages 24-25 of draft Chapter 2. But some form of regulatory oversight of fee levels is required in order to prevent the agency from raising fees over time to a monopoly level, for just the same reasons as public utility rates are reviewed by regulators. It is easy to picture the Park Service, for example, as coming to recognize the many worthwhile activities it could fund with additional revenues, and, without intending to do so, losing sight of the importance of low fees to keep public usage of the parks high (consistent with fees covering costs). The regulatory oversight mechanism need not be as cumbersome as a public utility commission to serve this function; for example, the Park Service might merely be required to seek OMB approval for proposed increases in fees. The draft report's discussion of the fee-setting recommendation should be modified accordingly.

11. The recommendation for creating Innovation Funds (draft Chapter 2, pages 24-26) should explicitly indicate that programs within the agency, department, or government seeking a loan from these funds must compete to receive the loan, and that only some proposals will be funded. This market-like mechanism will help ensure that the funds are not awarded for frivolous projects. For a similar reason, the text of the report should state what is suggested by the box on draft page 26: that annual payments on the loan will be subtracted from annual department budgets. These two requirements will make the loan program work something like the way that the home mortgage market works: a home buyer must pass a credit check (corresponding to the competitive proposal requirement) even though the home buyer already has a strong incentive not to overreach given his projected monthly mortgage payment (corresponding to the subtraction of annual loan payments from the department's budget).

12. There is a problem in the analysis of the recommendation that FEMA establish a system of state disaster insurance and disaster loans (draft Chapter 2, pages 30-31). I do not agree with the statement on page 31 that "because all states would contribute to the insurance fund, most would seek [to] hold down costs by encouraging one another not to reach into it unless absolutely necessary." Rather, there is a strong incentive for each state to keep its contributions low and its payments high, given that forty-nine other states will contribute most of the funds. In order for this program to work, FEMA will need to determine the appropriate level of each state's annual premium (allowing each state to decide how it wants to finance the program) and to set standards for what is covered (e.g. a specified percentage of replacement cost for certain structures, perhaps). Moreover, this program provides another opportunity to introduce competition for government services. To encourage FEMA to keep premiums low and coverage high, each state should be permitted to opt out of the program by self-insuring. (In practice, states are unlikely to adopt an opting-out provision unless FEMA becomes highly unsuccessful, because a national program permits risk-averse states to share risks with distant states that are unlikely to be affected by the same natural disaster as affects it; self-insurance does not allow similar risk-sharing except perhaps for the largest states.)

13. The benefit principle of taxation -- that the people who use a service should pay for it (draft Chapter 4, page 11) -- is one important principle for sensible tax system design, but it is not the only such principle. A rigid adherence to the idea that the government services should be paid by the beneficiaries based on the value they receive could interfere, for example, with the goal of minimizing the efficiency losses from distortions in resource allocation induced by the tax system or with the need to vary fees to encourage the internalization of spillover costs. Rather than seeking to "establish" this principle, as the draft report now has it, it would be better to speak in terms of being "guided" by this principle; this change would avoid inappropriately enshrining the benefit principle as the primary principle of taxation.

14. On page 24 of draft Chapter 4, the report states that the agencies collecting economic statistics "impose unnecessary burdens on business." Because I suspect that this criticism is misplaced, I would hope that the draft would either provide convincing examples or drop the paragraph. The alleged burdens on business have been used in the recent past as an excuse for reducing statistical collections, with the unfortunate effect of reducing the accountability of government programs and the effectiveness of economic policy-making.

15. The report's call for regulatory negotiations (draft Chapter 4, pages 24-26) overstates the case for "reg-neg." Reg-Neg is

almost surely ineffective as a means of issuing a major rule that has disparate effects on many interests. Moreover, when it is successful, the process runs the risk of allowing the agency to be "captured" by the regulated industry. If the agency cuts a bad backroom deal with a regulated entity, subsequent OMB review cannot easily undo the damage; it is difficult for those seeking to improve the rule to overcome the argument that any change will undermine the "deal" (and lead to the litigation that the reg-neg procedure sought to prevent as well as discouraging the regulated interests from participating in future negotiations). Rather than encourage regulatory negotiations specifically, the report should make the more general point of encouraging agencies to make better use of mechanisms for encouraging early input from interest groups in the process of rule design. The discussion can highlight "policy discussion groups" in addition to reg-neg (my preference would be instead of reg-neg). By convening policy discussion group of interested outside parties, to learn their reaction to various rulemaking options the agency is considering, an agency can generally obtain most of the benefits that reg-neg promises without risking the harms. The policy discussion group process gives the agency valuable information early, and has the potential for streamlining rulemaking in much the way that reg-neg promises. But the additional step of encouraging the agency to negotiate the text of a rule can exclude the general public, and should not be emphasized. (Policy discussion groups are advocated in the NPR report on Improving Regulatory Systems.)

8/30

To: AB

Fm: Jon B

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20500

MEMBER

August 20, 1993

MEMORANDUM FOR ELAINE KAMARK
JACK QUINN
MARLA ROMASH
GREG SIMON

FROM: JOSEPH E. STIGLITZ JS

SUBJECT: Restructuring the FAA as a Public Corporation

I understand that the idea of restructuring the Federal Aviation Administration (FAA) as a public corporation is being considered as a "reinventing government" initiative. This memorandum explains why I believe this idea has promise, and sets forth a more general analysis of the circumstances under which governmental services should be provided by public corporations.[1]

By "public corporation," I mean an entity with a dedicated source of revenues and the power to leverage those revenues through issuing debt. The TVA, for example, was designed with these characteristics. Section I of this memorandum contrasts the public corporation model with one in which the services are provided by an agency housed in an Executive Branch department; such an agency would rely on an annual appropriation for its budget.[2] This section identifies a set of circumstances under which the public corporation model should be preferred to the Executive Branch department model. Section II applies the general analysis to the topical policy question of whether to restructure the FAA. This section concludes that the public corporation model may well be a suitable one for running the air traffic control system, the major task of the FAA, and that this possibility is, at a minimum, worthy of further study.

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[1]For the purpose of this memorandum, I assume that it is appropriate for some governmental entity to provide the service at issue (e.g. air traffic control) rather than rely on the private sector to do so. The issue addressed below is not whether the government should provide the service, but how to structure the governmental entity created to do so.

[2]Government agencies differ along many dimensions other than the way an agency obtains funding. The discussion below ignores those dimensions, and ignores intermediate models of agency structure (such as the Federal Reserve System, perhaps), in order to focus on the significance of agency finance.

I. When Should Agencies be Housed in Public Corporations?

Governmental activities are generally best kept within the appropriations process, contrary to what the public corporation model requires. Funding agencies through the annual budgeting process encourages Congress and the President to debate priorities among alternative programs, and to monitor the way agencies carry out their existing mandates.

Despite these advantages of relying on appropriations for agency finance, it may occasionally be appropriate to deviate from the general presumption in favor of the traditional Executive Branch department model. In particular, an agency is a good candidate for financing through a public corporation if (1) its activities involve substantial capital expenditures, (2) the government collects a benefit tax (user fee) at least roughly comparable in magnitude to the agency's operating budget, and (3) most of the benefits and costs of the agency's activities accrue to those paying the user fee.

The first feature that makes the public corporation model appropriate -- that the agency's activities involve substantial capital expenditures -- emphasizes that the public corporation structure helps avoid the problem of underinvestment in the public sector. A public corporation can determine the level of government investment on the basic economic criterion of rate of return. Yet in a period of high budgetary stringency, as is likely to persist for the indefinite future, Executive Branch departments are forced to make investment decisions as though the rate of return exceeds the true rate of return, leading to inefficiently low public sector investment. If an agency with large capital expenditures is moved off-budget, to a corporation with borrowing authority, the competition for government funds between capital expenditures and other spending is reduced. The change in governmental structure will lead social decisions on the level of investment to be based on the appropriate criterion, their rates of return, rather than upon whether the investment happens to be made by the public or private sector.

The second feature that makes the public corporation model appropriate is that the users of the service provided by the agency pay a fee for the service. This user fee provides the public corporation with a revenue stream, and makes it possible for the corporation to borrow against future revenues.

The third feature that make the agency suitable for structuring as a public corporation is that most of the benefits and costs of its activities either accrue to those paying the user fee or can be addressed through regulation that does not require significant on-going intergovernmental coordination. If the agency's capital investment creates significant spillovers affecting people or entities not paying for the investment through the user tax, the agency can no longer be relied upon to make the efficient level of investment unless other regulatory mechanisms are available for addressing the externality. Some spillovers will best be addressed through creating market incentives, by subsidizing or taxing the activity. Other spillovers will best be addressed through direct or indirect regulation. If the degree of intergovernmental interaction required to deal effectively with externalities, whether through market incentives or regulation, is substantial, the case favoring a public corporation model over the Executive Branch department structure is likely weakened.[3]

II. Financing Air Traffic Control Through a Public Corporation

The three conditions favoring the public corporation model over the Executive Branch department structure may well be satisfied for the air traffic control functions of the FAA. First, substantial capital investments (tens of billions of dollars) will be required to modernize the air traffic control system. Second, the government now collects a user fee, in the form of a passenger ticket tax and cargo waybill tax, on the use of the air traffic control system. Third, although significant spillovers must be addressed -- especially safety, noise, congestion, and defense concerns -- it is possible that the degree of intergovernmental coordination required to do so is not inconsistent with the public corporation structure.

There is no dispute about the first condition; it is widely agreed that shifting to a satellite-based air traffic control system will require substantial capital investments, for example in controller workstations. Moreover, the aviation excise taxes (the ticket and waybill taxes) offer a natural revenue source for a public corporation to leverage through borrowing.[4]

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[3]Similarly, if frequent adjustments of the user fee are required, for example in response to changing market conditions or to entry and exit by the beneficiaries of the public investment, then the ability of a public corporation to make such adjustments must be compared with the ability of an Executive Branch department to do so.

[4]Ticket and waybill taxes are not necessarily the best way of structuring a user fee. For example, the fee could instead be collected from the carriers rather than from passengers and shippers; the fee could vary by the route flown; and the fee could vary with the number and time of takeoffs and landings. Whether or not the FAA is restructured as a public corporation, it would be useful to study whether the user fee structure should be revised.

The main uncertainty about the suitability of shifting the FAA's air traffic control responsibilities to the public corporation model concerns the third condition, whether the necessary degree of intergovernmental coordination required to address the main spillovers is incompatible with the public corporation structure. It is plausible that safety, noise, and congestion regulation (which would presumably remain primarily with the Department of Transportation if the air traffic control functions are shifted to a public corporation), and defense concerns could be addressed as easily if the air traffic control function is run as a public corporation as they are today. This should be the main focus of the analysis of a proposal to restructure the FAA as a public corporation.[5]

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[5]Shifting both the airline excise taxes and a large portion of the current FAA budget to a public corporation also raises some technical budgeting issues emphasized by OMB. Because the FAA budget is considered discretionary spending, OMB believes this shift of revenues and spending will trigger a sequester even if revenue-neutral, unless the pay-as-you-go rules are altered by Congress to accommodate it. OMB also suggests that it may be impossible to keep a public corporation off-budget. Even if these technical issues raise problems -- and I am not convinced that they cannot easily be corrected, perhaps legislatively -- technical budgeting rules should not be allowed to impede an otherwise desirable governmental action. Indeed, the fact that technical rules may interfere with the rationalization of government operations serves to emphasize the potential desirability of these proposals for FAA restructuring.

I also note that I have reservations concerning each of OMB's arguments against creating a corporation structure for the FAA: (i) the benefits of restructuring the FAA may actually be substantial, if corporatization facilitates an end to underinvestment; (ii) safety need not be compromised; (iii) there is no reason to expect airline influence on FAA management to lead to agency gridlock, as there is little evidence of significant disagreement within the industry concerning the issues over which the new corporation would have responsibility; and (iv) so long as the stringent conditions set forth in the first part of this memorandum are met, corporatization might establish a good rather than bad budget precedent.

NOTE: THERE WILL BE A PREFACE EXPLAINING WHAT NPR IS, AND WHAT THIS REPORT IS.

Introduction

"Make no little plans; they have no magic to stir men's blood, and probably themselves will not be realized. Make big plans; aim high in hope and work, remembering that a noble logical diagram, once recorded, will never die, but long after we are gone will be a living thing, asserting itself with ever-growing insistency."

Daniel Burnham, 1907[1]

Public confidence in the federal government has never been lower. The average American believes we waste 48 cents of every tax dollar. Five of every six Americans want "fundamental change" in Washington. Only 20 percent of Americans say they trust the federal government to do the right thing most of the time.[2]

We all know why. Washington's failures are obvious. The deficit is $330 billion a year. The debt exceeds $4 trillion--$16,600 for every man, woman, and child in America. The average family of four now pays more than $4,000 in federal taxes every year just to pay *interest* on the debt.[3]

But the deficit is only the tip of the iceberg. Below the surface, most Americans believe, lies enormous unseen waste. The Defense Department owns more than $40 billion in unnecessary supplies.[4] The Internal Revenue Service struggles to collect more than $100 billion in unpaid bills.[5] A century after industry replaced farming as America's principle business, the Agriculture Department still operates 11,000 field service offices--an average of 3.5 for every county, whether rural, urban, or suburban.

And yet, waste is not the most important problem. The federal government is not simply broke; it is broken. Ineffective regulation of the financial industry brought us the savings and loan debacle. Ineffective regulation of the health care market brought us the health care crisis. Ineffective education and training programs jeopardize our competitive edge. Ineffective welfare and housing programs undermine our cities.

We spend $25 billion a year on welfare, $27 billion on food stamps, and $5 billion on public housing--yet more and more Americans fall into poverty every year.[6] We spend

$12.2 billion a year waging war on drugs--yet see no signs of victory. We fund 150 different employment and training programs, yet the average American has no idea where to get job training and the skills of our work force fall further behind those of our competitors.[7] Asked whether "government always manages to mess things up," two thirds of Americans say yes.[8]

> *Our goal is to make the entire federal government both less expensive and more efficient, and to change the culture of our national bureaucracy away from complacency and entitlement toward initiative and empowerment. We intend to redesign, to reinvent, to reinvigorate the entire national government.*
>
> *President Bill Clinton*
> *Remarks announcing the initiative to streamline government, White House, March 3, 1993*

To borrow the words of a recent Brookings Institution book, we suffer not only a budget deficit but a performance deficit.[9] Indeed, some public opinion experts argue that we are suffering the deepest crisis of faith in government in our lifetimes.[10] In past crises--during Watergate or the Vietnam War, for example--Americans doubted their leaders on moral or ideological grounds. They felt their government was deceiving them or failing to represent their values. Today's crisis is different: people simply feel government doesn't work.[11] In Ross Perot's famous phrase, they want someone to lift up the hood and fix it.

In Washington, political debate rarely focuses on the performance deficit. Our leaders spend most of their time debating policy issues. But if the vehicle designed to carry out policy is broken, new policies are irrelevant. If the car won't run, it hardly matters in which direction we point it; we won't get where we want to go. Today, the central issue we face is not what government does, but how it works.

President Clinton created the National Performance Review to address that issue. In this report and the TK papers that accompany it, we make more than TK recommendations. If implemented, they will revolutionize the way the federal government does business. They will reduce waste, eliminate obsolete functions, improve service to taxpayers, and create a smaller but more productive government. In the process, they will save $TK billion over five years--roughly TK percent of all federal operating costs (which run $150 billion per year), and TK percent of all discretionary spending (which totals $550 billion per year).[12]

Government is not alone in its troubles. As the industrial era has given way to the information age, institutions--both public and private--have come face to face with obsolescence. The past decade has witnessed profound restructuring. In the 1980s, major American corporations reinvented themselves. In the 1990s, governments are struggling to do the same.

In recent years, our elected leaders responded to the growing crisis with traditional medicine. They blamed the bureaucrats. They railed against waste, fraud and abuse. And they slapped ever more controls on the bureaucracy to prevent it.

But the cure has been worse than the disease. The problem is not the bureaucrats; it is the bureaucracy. It is not lazy or incompetent people; it is red tape and regulation so suffocating that it stifles every ounce of creativity. No one would offer a drowning man a drink of water. And yet, for more than a decade, we have applied more red tape to a system already strangling in it.

> *Our bedrock premise is that ineffective government is not the fault of people in it. Our government is full of well-intentioned, hard-working, intelligent people--managers and staff. We intend to let our workers pursue excellence.*
>
> *Vice President Al Gore*
> *Reinventing Government Summit*
> *Philadelphia, June 25, 1993*

The federal government is filled with good people trapped in bad systems: budget systems, personnel systems, procurement systems, financial management systems. When we blame the people and impose more controls, we make the systems worse. In the late 1970s, for example, Congress created within each department an independent Office of the Inspector General. The idea was to root out waste, fraud and abuse. The Inspectors General have certainly uncovered problems, but they have so intimidated federal managers that many are now afraid to deviate even slightly from standard operating procedure.

Yet innovation, by its nature, requires deviation. Faced with so many controls, most employees have simply given up. They do everything by the book--whether it makes sense or not. They fill out forms that never should have been written, follow rules that never should have been promulgated, and prepare reports that serve no purpose. In the name of controlling waste, we have created paralyzing inefficiency.

The Root Problem: Industrial-Era Bureaucracies in an Information Age

If "waste, fraud and abuse" aren't the problem, what is? Is government inherently incompetent? Absolutely not. Are federal agencies filled with incompetent people? No. The problem is much deeper: Washington is filled with organizations designed for an environment that no longer exists.

In the 1930s, 1940s, 1950s, and 1960s, our leaders created large, top-down, centralized bureaucracies to do the public's business. They were patterned after the corporate structures of the age: hierarchical bureaucracies in which tasks were broken into simple parts, each the responsibility of different layers of employees, each defined by specific rules and regulations. With their rigid preoccupation with standard operating procedure, their complex chains of command, and their standardized services, these bureaucracies were steady but slow and cumbersome. Most also were monopolies. And in today's world of rapid change, lightning-quick information technologies, tough global competition and demanding customers, large, top-down monopolies--public or private--don't work very well. Saturn isn't run the way GM was. Microsoft isn't run the way IBM was.

> *Large organizations within the private sector have learned to adopt new management approaches, new organizational theories that empower employees at the grassroots level to use their good judgment. ... We ought to be able in the federal government to take that approach. It means trusting employees. It means decentralizing authority to some extent, giving more power to make decisions to the people who work where the rubber meets the road.*
>
> *Vice President Al Gore*
> *Town Hall Meeting, Department of Justice, July 14, 1993*

Hierarchical, rule-driven monopolies have few incentives to innovate or improve. Employees have virtual lifetime tenure. Success offers few rewards; failure, few penalties. And customers are captive. Typically, they have nowhere else to go: they can't opt out of the Air Traffic Control system or the Social Security system and sign up with a competitor. Even worse, most federal monopolies receive their money from Congress, not from their customers. Consequently, they try harder to please their appropriating subcommittee than the people they are meant to serve. Taxpayers pay more than they should and get poorer service.

Politics intensifies the problem. In Washington's highly politicized world, the greatest risk is not that a program will perform poorly, but that a scandal will erupt.

Scandals are front-page news, while routine failure is ignored. Hence our political leaders have piled up system after system to minimize the risk of scandal. The budget system, the personnel rules, the procurement process, the Inspector Generals--all are designed to prevent the tiniest misstep. We assume that we can't trust employees to make decisions, so we spell out in precise detail how they must do virtually anything, then audit them to ensure that they have obeyed every rule. The slightest deviation prompts new regulations and more audits.

Before long, simple procedures are too complex for normal employees to navigate, so we hire even more budget analysts, personnel experts, and procurement officers to make things work. By then, the process involves so much red tape that the smallest step takes far longer and costs far more than it should. Simple travel arrangements require endless forms and numerous signatures. Straightforward purchases take months. Routine printing jobs require 23 approvals.

This emphasis on process steals resources away from the real job: serving the customer. Indeed, the federal government spends $35 billion a year paying people who control, check up on, or investigate others: budget officers, personnel officers, procurement officers, and Inspectors General and their staff. The real waste is far larger, of course, because the endless regulations and layers of control consume *every* employee's time. And who pays? The taxpayer.

Consider but one example, brought to Vice President Gore at a meeting of federal employees in Atlanta. When federal marshalls seize drug dealers' homes, they are allowed to resell them and use the money to help finance the war on drugs. To sell the houses, they must keep them presentable--which means keeping the lawns mowed.

How? In Atlanta, the employee explained, most organizations would hire neighborhood teenagers to mow a lawn for $10. But procurement regulations require the U.S. Marshall's Service to bid out all work competitively, and neighborhood teenagers don't submit bids. So the federal government pays $40 a lawn to professional landscape firms. Regulations designed to save money waste it, because they take decisions out of the hands of those responsible for doing the work. And taxpayers lose $30 for every lawn mowed.

What would happen if the marshals used their common sense and hired neighborhood teenagers? Someone would notice--perhaps the Washington office, perhaps the Inspector General's (IG's) office, perhaps even the General Accounting Office (GAO). And disciplinary action would follow.

In this way, federal employees learn that common sense is risky. They learn that the goal is not to produce results, please customers, or save taxpayers' money, but to avoid mistakes. Those who dare to innovate learn to do so quietly.

This is perhaps the saddest lesson learned by those who worked on the National Performance Review: Yes, innovators exist within the federal government, but they work hard to keep their innovations secret. By its nature, innovation requires deviation from standard operating procedure. In the federal government, deviation invites punishment.

The result: a culture of fear and hopelessness. One employee who wrote to the Vice President compared federal civil servants to "abused children who live with a child abuser." To survive, they keep a low profile. They follow the rules, pass the buck, and keep their heads down. The safest answer, they know, is a firm "maybe."

The Solution: Cutting Red Tape, Changing Incentives and Empowering Employees

How do we solve these problems? It won't be easy. We know all about government's problems, but little about solutions. Last fall the General Accounting Office published a 28-volume report on federal management problems. In January it released *High-Risk Series*, a 17-volume series of pamphlets, the result of four years of work. That same month the House Government Operations Committee issued its own report on federal mismanagement called *Managing the Federal Government: A Decade of Decline*. When the National Performance Review began its work, the Office of Management and Budget (OMB) sent over 75 notebooks summarizing the tables of contents of Inspector Generals' reports.

In other words, we received a comprehensive list of problems. But these studies did not help us design solutions. Few of the investigating bodies had identified success stories -- organizations that had solved these problems. And without studying success, it is hard to devise solutions. For years, the federal government has studied failure, and for years, failure has endured. Six out of ten federal agencies have programs on OMB's "high risk" list. Most stay there, year after year.

People in high places do not ignore all the studies. Often, they act on them. The GAO says 80 percent of its recommendations are implemented within five years. Yet our problems seem only to get worse -- because the traditional method of "fixing" them doesn't work.

The National Performance Review approached its task differently. We looked for success. We looked for organizations that produced results, satisfied customers, and increased productivity. We looked for organizations that constantly learned, innovated, and improved. In other words, we looked for effective, entrepreneurial public organizations. And we found a surprising number of them: in local government, in state government, in other countries -- and in our federal government.

> *Americans voted for a change last November. They want better schools and health care and better roads and more jobs, but they want us to do it all with a government that works better on less money and that is more responsive.*
>
> *President Bill Clinton*
> *Remarks announcing the initiative to streamline government, White House, March 3, 1993*

At the Air Combat Command, we found units that had doubled their productivity in five years. The Command measured performance everywhere, and squadrons and bases competed proudly for the best maintenance, flight, and safety records. A supply system that had once required 243 entries by 22 people on 13 forms to get one spare part into an F-15 had been radically simplified and decentralized. Teams of employees were saving millions of dollars by moving supply operations to the front line, developing their own flight schedules, and repairing parts that were once discarded.

At the Internal Revenue Service, we found tax return centers competing for the best productivity records. Performance on key customer service criteria--such as the accuracy of answers provided to taxpayers--had improved dramatically. The Ogden Service Center, in Utah, had more than 50 "productivity improvement teams" working to simplify forms and reengineer work processes. Not only had it saved $11 million, it had won the 1992 Presidential Award for Quality.[13]

At the Forest Service, we found that the Eastern Region (covering 20 states) had instituted a pilot project, involving more managerial freedom and a cultural change for all employees, that had increased productivity by 15 percent in just two years. The region had simplified its budget systems, eliminated layers of middle management, pared its central headquarters staff by a fifth, and empowered front-line employees to make more of their own decisions. At the Mark Twain National Forest, for instance, the time needed to grant a grazing permit had shrunk from 30 days to one--because employees were empowered to grant the permits themselves rather than process them through headquarters.[14]

Indeed, we discovered that governments were reinventing themselves around the globe, from Great Britain to New Zealand, Sweden to Australia. Throughout the developed world, the needs of information-age societies were colliding with the limits of industrial-era government. Regardless of party, regardless of ideology, governments were responding. In Great Britain, conservatives led the way. In New Zealand, the Labor Party revolutionized government. In Australia and Sweden, both conservative and liberal parties embraced fundamental change.

In the United States, we found the same phenomenon at the state and local levels. The movement to reinvent government is as bipartisan as it is widespread. It is driven not by political ideology, but by absolute necessity. Governors, mayors, and legislators of both parties have come to the same conclusion: government is broken, and it is time to fix it.

Where we found success, we found many common characteristics. First and foremost, effective public organizations were obsessed with their customers: they listened to their customers, offered them choices, and restructured operations to meet their needs.

By "customer," we do not mean "citizen." A citizen can participate in democratic decision-making; a customer is the recipient or beneficiary of a specific service. All Americans are citizens. Most are also customers: of the Postal Service, the Social Security Administration, the Veterans Administration, the Education Department, and hundreds of other federal organizations.

In a democracy, both roles are important. When they vote for a President or a member of Congress, however, citizens seldom have much chance to influence the behavior of public institutions that directly effect their lives: schools, hospitals, farm service agencies, Social Security offices. It is a sad irony that while citizens own their government, private they do not own work much harder to cater to their needs. Only when they encounter public institutions that work equally hard to please their customers do citizens get what they want from government.

To ensure customer satisfaction, we found, public organizations tend to embrace several fundamental principles.

- They cast aside red tape, shifting from a system in which they are accountable for following rules to one in which they are accountable for achieving results.
- They introduce market dynamics such as competition, customer choice, and return-on-investment, creating incentives that drive their members toward excellence.
- They transform their culture by decentralizing authority--empowering those who work where the rubber meets the road.

- They constantly find ways to make government work better and cost less--reengineering how they do their work, reexamining programs and processes, and abandoning the obsolete.

These are the bedrock principles around which the reinvention of the federal bureaucracy revolves--and the principles we have chosen to organize our work. They fit together much like the pieces of a puzzle: if one is missing, the others lose their power. To create organizations that deliver value to American taxpayers, we must embrace all four.

Our approach far exceeds fixing specific problems in specific agencies. Piecemeal efforts have been underway for years--but they have not delivered what Americans demand. The failure in Washington is embedded in the very systems by which we organize the federal bureaucracy. In recent years, Congress has recognized as much. In 1990, it passed the Chief Financial Officers Act, designed to overhaul financial management systems; last July, it passed the Government Performance and Results Act, which will introduce performance measurement throughout the federal government. Working with Congress, we hope to reinvent government's other basic systems, such as budget, personnel, and procurement.

> *[Government] is seen as costly, wasteful, and unresponsive. Program-by-program fixes alone won't solve the problem. If we are to renew the public's confidence in the institutions of the federal government, we need bold, comprehensive reform across the full scope of government activity.*
>
> *Much of what needs to be done along these lines is truly non-ideological. This gives me real hope that, working together, we can develop a bi-partisan agenda to improve the functioning of the federal government and restore the public's confidence in its institutions.*
>
> *Senator William V. Roth*
> *Letter to President-Elect Bill Clinton*
> *November 23, 1992*

Our approach -- which takes its name from a best-selling book, *Reinventing Government* -- has much in common with other management philosophies, such as Quality Management and Business Process Reengineering. But these management disciplines were developed for the private sector, where conditions are quite different. In business, red tape is not the suffocating presence it is in government. In business, market incentives already exist; no one need invent them. And in business, powerful incentives are always at work, forcing organizations to do more with less. Indeed, businesses that fail to increase their productivity every year shrink or die. Hence, private sector management doctrines tend to overlook some central problems of government: its monopolies, its lack of concern for customers, its accountability for process rather than results. Our approach goes beyond private sector methods. It is aimed squarely at the heart of government.

Reinventing government also shares certain goals with past efforts to cut costs in government, such as the Grace Commission under President Reagan. But it goes far beyond cost-cutting. Our goal is not simply to *weed* the federal garden; it is to create a regimen that will *keep* the garden free of weeds. It is not simply to trim the size of government, but to reinvent it. It is not simply to produce a more efficient government, but to create a more *effective* one. Americans don't want a government that fails more efficiently. They want a government that *works*.

To deliver what the people want, we need not jettison the traditional values that underlie democratic governance--values such as equal opportunity, justice, diversity, and democracy. We hold these values dear. We seek to transform our bureaucracies precisely *because* they so undermine efforts to nurture these values. We believe that those who resist change for fear of jeopardizing our democratic values doom us to a government that continues -- through its failures -- to subvert those very values.

A LONG-TERM INVESTMENT IN CHANGE

In times past, Americans have felt compelled to reinvent their governments. In 1776, our founding fathers rejected the old model, in which a central power gathered information from the hinterlands, processed it, and issued edicts for all to obey. In its place, they created a government in which power was broadly distributed. Their vision of democracy, giving many individuals a voice in managing the United States, was untried and untrusted in 1776. It required a tremendous leap of faith.

Later generations extended this experiment in democracy to those who had not yet been enfranchised. As the 20th Century dawned, a generation of "Progressives" such as Teddy Roosevelt, Woodrow Wilson, and Franklin Roosevelt invented the modern bureaucratic state, designed to meet the needs of a new industrial society. It was not President Clinton or Vice President Gore who said:

> *The time has come to set our house in order. The administrative management of the Government needs overhauling. The executive structure of the Government is sadly out of date. If we have faith in our republican form of government we must devote ourselves energetically and courageously to the task of making that Government efficient.*[15]

With these words, Franklin Roosevelt unveiled his President's Committee on Administrative Management. With its recommendations, the committee laid down the basic administrative structure that exists to this day--a structure patterned largely after those of corporate America. In a sense, Roosevelt's Committee recommended that the federal government embrace the GM model of organization.

But by the 1980s, even GM recognized that this model no longer worked in an environment of rapid change, information technologies, and global competition. In creating Saturn, its first new division in 67 years, GM embraced a very different model. It picked its best and brightest and asked them to create a more entrepreneurial organization, with fewer layers, fewer rules, and employees empowered to do whatever was necessary to satisfy the customer. Faced with the very real threat of bankruptcy, major American corporations have revolutionized the way they do business.

> *I would invite those who are cynical about the possibility of this change to ask themselves this question: What would your reaction have been ten years ago if someone had said that in the summer of 1993 American automobile companies will be making the highest quality, most competitively priced cars in the world?*
>
> *I know my reaction would have been, "No way. I am sorry, but I've bought too many clunkers. They can't do it. The momentum toward mediocrity is just too powerful.*
>
> *[But] that change has taken place. ... If an industry as large and as stodgy as the automobile industry that can undergo that kind of transformation, then the Federal Government can as well.*
>
> *Vice President Al Gore*
> *Town Hall Meeting, Department of Energy, July 13, 1993*

Faced with our twin budget and performance deficits, President Clinton intends to do much the same thing. Like GM, the President has called on many of the best and brightest in his organization. He did not staff the Performance Review with outside consultants or corporate experts, as past Presidents have. He chose federal employees. As Vice President Gore said over and over at his meetings with federal employees: "The people who work closest to the problem know the most about how to solve the problem."[16]

Nor did the effort stop with the several hundred men and women who staffed the Performance Review. President Clinton asked every cabinet member to create both a Reinvention Team, to redesign his or her department, and Reinvention Laboratories, to begin experimenting immediately. Since April, thousands of people have been working full time to reinvent the federal bureaucracy.

The process is not easy, nor will it be quick. Even if each of our recommendations is enacted, we will only have begun the process of reinventing the federal government. The National Performance Review is but a down payment--the first installment of a long-term investment in change. Every expert with whom we have talked reminded us that change takes time. In a large corporation, transformation takes six to eight years at best. In the federal government, which is much larger than any corporation, it will undoubtedly take longer.

Along the way, we will make mistakes. Some reforms will succeed beyond our wildest dreams; others will fail. As in any experimental process, we will need to monitor our results and correct our errors as we go. But we must not confuse mistakes with failure. As Tom Peters and Robert Waterman wrote in *In Search of Excellence*, any organization that is not making mistakes is not trying hard enough. We should not forget that Babe Ruth, the Sultan of Swat, struck out 1,330 times.

With this report, then, we begin a process of trial and error, success and failure, invention and reinvention. We hope this process will involve not only the thousands of federal employees now at work on Reinvention Teams and in Reinvention Labs, but millions more who are not yet engaged. We hope it will generate a fundamental transformation in the habits, culture and performance of all federal organizations.

Others may say that the task is too large, that we should not attempt it because we are bound to make mistakes, that it cannot be done. But the times preclude such excuses.

Our government is in trouble. It has lost its sense of mission, its ethic of public service, and, most importantly, the faith of Americans.

In times such as this, the most dangerous course is not to risk change. It is to do nothing.

#

Chapter 1
Cutting Red Tape to Get Results

About ten years ago, two foresters returned from a hard day in the field to meet and make plans for the coming week. In the course of conversation, a need to determine the details of the agency policy arose. In their search for an answer, the two found themselves overwhelmed by the voluminous editions of Forest Service policy manuals, reports and binders filled with thousands of directives. One forester recalled the very first Forest Service Manual. "It was only 41 pages long and contained everything a forester needed to know to do his job."

Remembering that very first directive, the other forester replied, "Why is it that when we have a problem, the solution is always to add something -- a report, a system, a policy -- but never take something away."

The first replied: "What if . . . we could just start over?"[1]

The federal government does one thing well: It generates red tape. Not one inch of it appears by accident. In fact, the government creates it all with the best of intentions.

Because we don't want state and local governments using federal funds for purposes that Congress did not intend, we write to tell them precisely how to run every federally-funded program. Because we don't want family, friends and political supporters placed in no-show jobs, we have 10,000 pages of personnel rules defining in exquisite detail how to hire, promote, or fire federal employees.[2] Because we don't want employees or private companies profiteering from federal contracts, we create procurement processes that require endless signatures and long months to buy almost anything. Because we want agencies spending money only on approved purposes, we dictate how much they can spend on everything from staff to telephones, travel and equipment.

Consider the plight of managers in the million-acre Ochoco National Forest, in Oregon. Until recently, they had 70 separate budgets--one for fence maintenance in the north sector, another for brush burning in the south--divided into 556 management codes and 1769 accounting lines. To transfer money between accounts, they needed approval from headquarters. The task of tracking spending in each pot consumed 45-60 days of their time every year.[3] It also sent a message: They were not trusted with even the simplest responsibilities.

Or consider the federal employee who repairs cars and trucks at a Naval base. Each time he needs a spare part, he orders it through a central purchasing office--a procedure that can keep vehicles in the shop for a month. This keeps a tenth of the fleet out of commission, so the Navy buys 10 percent more vehicles than it needs.[4]

Or how about the new Energy Department petroleum engineer who requested a specific kind of calculator to do her job? Three months later, she received an adding machine. Six months after that, the procurement office got her a calculator--a tiny, hand-held model that could not perform the complex calculations her work required. Disgusted, she bought her own.[5]

Centralized purchasing was intended to save money through bulk buying and competitive bidding. It doesn't. With today's mail-order discount houses and vertically integrated retailers, employees can buy cheaper, better goods without leaving their offices--and receive them in two days.

Federal managers read the same books and attend the same conferences as private sector managers. They know what good management looks like. They're familiar with all the latest theories. They just can't put them into practice--because they face constraints few managers in business could imagine.

Hamstrung by rules and regulations, federal managers simply do not have the power to shape their organizations that private sector managers enjoy. Their job is to make sure every dollar is spent in the budget category for which it was appropriated, every promotion is consistent with central guidelines, and every piece of equipment is bought through competitive bidding. In an age of WordPerfect, they are asked to write with quill pens.

This thicket of rules and regulations has begotten layer upon layer of additional oversight. Each new procedure necessitates someone's approval. The result is fewer people doing real work, more people getting in their way. As management sage Peter Drucker once said, "So much of what we call management consists in making it difficult for people to work."[6]

But, with all the rules and regulations, the managers, inspectors, and auditors, no one is accountable for results. No one ensures that taxpayers get a dollar of value for every dollar of taxes. As John Sturdivant, President of the American Federation of Government Employees, told us, "Billions of dollars in precious tax revenues are squandered annually to support a federal management structure that is excessively bloated and that is unavailable to perform 'front line' production work. These needless layers upon layers of management are not benign."

We can't reform government without removing most of its rules and regulations. Yet we have proved far less adept at removing red tape than generating it. Even actions intended to cut paperwork have wound up creating new rules and regulations. We can only have a responsive, efficient government if we abolish the command-and-control system and replace it with management for results. Instead of detailed rules, we must hold everyone--from Cabinet secretary to office clerk--accountable for results.

Some governments already do. In Sunnyvale, California, the City Council doesn't budget by line item. It buys results. Every agency has quantitative performance targets. If an agency exceeds its targets, its manager can earn a bonus of up to 10 percent on his or her salary. In this way, Sunnyvale boosts its productivity by four percent a year, and cuts the costs of delivering the same services by half in a decade.[7]

Phoenix uses competition between public and private organizations to ensure that employees focus on results. In its first decade of competition with private firms, the city's Department of Public Works cut the cost of collecting garbage in half.[8]

Great Britain has forced local governments to competitively contract virtually all services; the national government has taken a similar approach. Called "market testing," it requires about half the national agencies to sign three-year performance agreements with specific targets. If they do not meet them, their services may be bid out to another organization--public *or* private.

In Sunnyvale, Phoenix and Great Britain, agencies are free of restrictive budget and personnel rules. Managers can find the best way to accomplish their mission, with minimal interference. They are accountable for results.

Patton said it best. "Never tell people how to do things," the general would instruct his staff. "Tell them what you want them to achieve and they will surprise you with their ingenuity."

Thus, our path is obvious: We must shift from systems that hold people accountable for process to systems that hold them accountable for results. We must radically simplify our budget, personnel and other control systems, liberate state and local governments from federal micromanagement, and hold organizations accountable for performance.

[still needs a full paragraph on state/local]

Hence, we must take three basic steps:

Step 1: Liberate Agencies To Do Their Jobs

Step 2: Deregulate State and Local Governments
Step 3: Hold Bureaucrats Accountable For Results

These steps will radically change how we run government. But they won't be easy to implement. All government employees will to have to learn new ways to do their jobs. Nevertheless, an employee told Vice President Gore in one of his many town meetings, "If you always do what you've always done, you'll always get what you always got." We can no longer afford to get what we've always got.

Step 1. Liberate agencies to do their jobs

Federal agencies are forever tripping each other up--and not by accident. It's their role in the "command and control" system. Long ago we created "staff" agencies, ostensibly to assist "line" agencies. But as the regulations tightened, support turned into control. Today, line agencies must obey rules from the Office of Management and the Budget (OMB), General Services Administration (GSA), Inspector Generals (IGs), Office of Personnel Management (OPM), and untold others.

OMB, alone, runs more than 50 compliance, clearance, and review processes designed to ensure that agency managers don't err.[9] This approach to management violates one of President Theodore Roosevelt's basic rules. "The best executive," he said, "is the one who has the sense to pick good men to do what he wants done, and self-restraint enough to keep from meddling with them while they do it."[10]

While suffering under the grip of staff agencies, line agencies wrap even more red tape around themselves. They create their own personnel offices, procurement offices and budget offices, each of which control managers further. Budget offices divide Congressional budgets into increasingly minute line items, frustrating managers further. (A few years ago, base managers in one branch of the military had 26 line items for housing repairs alone![11]) Personnel offices tell managers who need flexibility when they can and cannot promote, reward, or move employees. Procurement offices force managers to buy through the central monopoly, precluding agencies from getting what they need, when they need it.

What staff functions don't control, Congress does. Congressional appropriations often come with hundreds of strings attached. The Interior Department found that language in its 1992 House, Senate and conference committee reports included some 2,500 directives, earmarks, instructions and prohibitions.[12] As the federal budget tightens, lawmakers request increasingly specific report language to protect activities in their districts. Indeed, 1993 has been a record year for such requests. As appropriation reports grow more clogged with directives, managers have less flexibility to accomplish their missions.

Even worse, Congress often gives one agency multiple missions, some of which contradict one another. A few years ago Representatives Lee Hamilton and Benjamin Gilman found that Congress had given the Agency for International Development 33 different objectives: feed the hungry, counter the Soviet Union, dispose of American farm surpluses, build democratic institutions, even strengthen the American land grant college system.[13] No wonder, then, that AID was having trouble accomplishing its real mission--promoting Third World development.

In Washington, we must untangle the knots of red tape that prevent agencies from pursuing their missions. We must give Cabinet secretaries, program directors and line managers much greater authority to run their operations. If they don't perform well, we want to know--quickly. At this point, though, our system gives them no chance. The National Performance Review recommends untying five major knots: budget, personnel, procurement, the Inspectors General, and regulatory overkill.

Streamlining the Budget Process

Most people cannot get excited about the green-eyeshade business of government budgeting. But organizations find nothing more important than their financing: what strings are attached, what restrictions created, what hurdles placed before managers. Budgets control virtually everything that agencies do. The budget system does more than devour managers' time. By limiting their flexibility on where to spend and whom to hire, it forces agencies to waste money.

Congress typically divides appropriations into 8,000-9,000 line items[14] Committee reports specify thousands of other restrictions on using money. OMB apportions each line item by the month or quarter, and sometimes divides it into sub-accounts by class or activity--all to control over-spending. Departmental budget offices further divide the money into "allotments."

Thus, many agency budgets are fenced into hundreds of separate accounts. In some agencies, managers can move funds between accounts. In others, the money is trapped. In those others, managers must spend money where they have it, not where they need it. On one military base, for example, managers had no line item to purchase snowplow equipment, but they did have a maintenance account. When the snowplow died, they leased one, using the maintenance account. Unfortunately, the one-year lease cost $100,000--the same as the full purchase price.

Such stories are a dime a dozen within the federal bureaucracy. Good managers struggle to make thing work but, trapped by absurd constraints, they are driven to waste billions of dollars every year.

Stories about the end-of-the-year spending rush also abound. Managers who don't exhaust each line item at year's end usually are told to return the excess. Typically, they get less the next time around. The result: the well-known spending frenzy. The Performance Review probably received more examples of this source of waste--in letters, in calls and at town meetings--than any other. Our favorite was the Air Force pilot who is asked to spend the last week of every fiscal year flying virtually non-stop, to burn up the remaining fuel allotment.

Most managers know how to save five or 10 percent of what they spend. But, knowing they will get less money next year, they have little reason to. Instead, smart managers spend every penny of every line item.

Edwin G. Fleming, chief of the Resources Management Division of the IRS's Cleveland District, put it well in a letter to the Treasury Department's Reinvention Team.[15]

> *Every manager has saved money, only to have his allocation reduced in the subsequent year. This usually happens only once, then the manager becomes a spender rather than a planner. Managing becomes watching after little pots of money that can't be put where it makes business sense because of reprogramming restrictions. So managers who are monitors of these little pots of money are rewarded for the ability to maneuver, however limitedly, through the baroque and bizarre world of federal finance and procurement.*

In another effort to control spending, OMB limits the number of each agency's full-time employees (FTEs). When agencies prepare their budget estimates, they must state how many FTEs they need. Some time later, OMB sets their limit for the year. Then, each department or agency divides that number into a ceiling for each bureau, division, branch or other unit.

Federal managers often cite FTE ceilings as the single most oppressive restriction on their ability to manage. The ceilings usually arise independently of--and often conflict with--budget allocations. They are frequently arbitrary, rarely account for changing circumstances, and are normally imposed as across-the-board percentage cuts in FTEs for all of an agency's units--regardless of changing circumstances. Organizations that face new regulations or a greater workload don't get new FTE ceilings. Consequently, they often must contract out work that could be done better and cheaper in-house.

Speaking at Vice President Gore's meeting with State Department employees in May, a manager said his FTE limit forced him to contract out for a junior programmer at the Foreign Service Institute. As it turned out, the programmer had an hourly rate similar to the Institute director's; the move cost money, rather than saved it.

Solutions to these problem exist. They have been tested in local and state governments, even in the federal government. Essentially, they involve budget systems a bit different than our current one--with fewer line items, no FTE controls, and more authority for managers to move money between line items and for agencies to keep some or all of what they save, eliminating the incentive for year-end spending sprees. Some governments go further, shifting from annual to biennial budgets to halve the time spent budgeting and eliminate half the chances for the year-end sprees.

Typically, federal organizations experimenting with "mission-driven" budgets have found that they could achieve their missions with at least 10 percent less money. At Oregon's Ochoco National Forest, where 70 accounts were reduced to four or five, productivity jumped 25 percent the first year and 35 percent more the second.[16] When the Forest Service's Eastern Region tried the same thing, productivity rose 15 percent in two years.[17] When several military bases experimented with a similar approach (called the Unified Budget Test), base commanders estimated that they could accomplish their missions with up to 10 percent less money.[18]

In a government that spends $150 billion a year on administrative operations, 10 percent is $15 billion.[19]

Recommendation: *Congress,OMB and the departments should minimize budget restrictions such as line items.*[20]

Beginning with their fiscal 1995 submissions to OMB, departments and agencies should begin consolidating accounts to minimize restrictions, they should radically cut the number of allotments used to subdivide accounts. They should consider using the Defense Department's Unified Budget Plan, in which units can shift funds between allotments and cost categories to help accomplish missions.

OMB should revise OMB Circular A-34 to simplify the apportionment process, which hamstrings agencies by dividing their funding into amounts that are available, bit by bit, according to specified time periods, activities, or projects. Agencies often don't get their funding on time and, after they do, must fill out reams of paperwork to show that they adhered to apportionment guidelines.[21] OMB also should expedite the "reprogramming" process, by which agencies can move funds from one budget activity to another within the same Congressionally-appropriated account. OMB should automatically approve reprogramming unless it objects within a set period, such as five days. Finally, Congress should minimize the restrictions and earmarks that it puts in committee reports.

Recommendation: ***OMB should stop using full-time-employee (FTE) ceilings, and substitute ceilings on operating costs to control spending.***[22]

The President should direct OMB to stop setting FTE ceilings, on a phased-in basis. Agencies should be released from FTE ceilings, beginning in fiscal 1995, if they already have sound accounting systems--including long-range financial planning, audited financial statements, integrated budget and accounting data, and "full-cost accounting." In state, local and foreign governments that use full cost accounting, budget offices have the needed information to protect against over-spending accounts without using crude controls like FTEs. Full-cost systemsdelineates the true cost of all operations, including normally-overlooked overhead costs such as pensions, equipment and vehicle expenses, building maintenance costs and insurance.

For this transition, the federal government's accounting system will have to separate operating from other costs. We address this issue in a separate recommendation, [on p. TK.]

Recommendations: ***Congress should allow agencies to roll over 50 percent of what they do not spend on operations during a fiscal year.***[23]

As part of its 13 fiscal year1995 appropriations bills, Congress should permanently allow agencies to roll over 50 percent of unobligated year-end balances in all appropriations for operations. It should allow agencies to use up to two percent of rolled-over funds on bonuses for the employees involved.[24] This approach, which the Defense Department and Forest Service have used successfully, would reward employees for finding more productive ways to work. Moreover, it would create incentives to save the taxpayers' money.[25]

Decentralizing Personnel Policy

Good management is getting the right person for the job and motivating that person to pursue the organization's goals. In the federal government, neither task is easy. Indeed, in our personnel system, few of history's great men or women would pass muster.

We want the most effective managers running our programs and the most effective employees implementing them. We can't always get them. Consider Rosalie Tapia. Ten years ago, fresh from high school, she joined the Army and was assigned to Germany as a clerk. She served out her enlistment with an excellent record, landed a job in Germany as a civilian secretary for the Army, and worked her way up to assistant to the division chief. When the Cold War ended, Rosalie decided to return to the U.S. and continue working for the government.

Unfortunately, one of the government's 10,000 pages of personnel rules says that, since Rosalie was hired as a civil servant overseas, none of her excellent work history counts toward landing a job here. Any right-thinking employer would prefer to keep Rosalie rather than hire an unknown, inexperienced newcomer. But our government cannot.

Federal personnel management is replete with similar examples of square pegs driven into round holes--kept there by seniority, tenure or sloppy management. We cannot efficiently deploy our greatest federal resource--an experienced and trained work force--because of rigid personnel rules that the Office of Personnel Management (OPM) must enforce.

That's not just how federal employees see it. Listen to former OPM director Constance Horner, who said in 1988, "The current system is slow; it is legally trammelled and confused; it is impossible to explain to potential candidates. It is almost certainly not fulfilling the spirit of our mandate to hire the most meritorious candidates."[26]

Or consider OPM's 1988 publication, *Simplifying the Federal Manager's Job*:

> *For two hundred years anecdotal mistakes prompted additional rules. When the rules led to new inequities, even more rules were added. Over time ... a maze of regulations and requirements was created, hamstringing managers, doing little to convince employees that their employer treats them fairly, and often impeding Federal managers and employees from achieving their missions and from giving the public a high quality of service.*[27]

Our system centralizes hiring and promotion decisions at OPM. At OPM, a job's demands and the manager's views of candidates matter less than the candidates' scores on standardized tests, their length of service in their current position, and their qualifications to fill one of 459 standardized job categories.

Talk to a federal manager for 10 minutes: You likely will hear at least one personnel horror story. The system is so complex and rule-bound that most managers cannot even advise an applicant how to get a federal job. The average manager needs a year to fire an incompetent employee, even with solid proof.[28] During layoffs, laid-off employees can "bump" employees with less seniority, regardless of their abilities or performance--putting people in jobs they don't understand and never wanted. Managers find it nearly impossible to hire the people they need. "Even when the public sector finds outstanding candidates," Paul Volcker's National Commission on the Public Service explained, "the complexity of the hiring process often drives all but the most dedicated away."[29]

Adding insult to injury, personnel paperwork is overwhelming. In 1991, the Navy's Human Resources Office processed enough forms to create a mountain six times the height of the Washington monument.[30] The full stack of personnel laws, regulations, directives, case law and departmental guidance that the Agriculture Department uses weighs 1,088 pounds.

[USE PHOTO HERE]

Costs to the taxpayer for this personnel quagmire are huge. In total, 40,000 people work in federal personnel.[31] We spend billions of dollars for these staff to classify each employee within a highly-complex system of 459 job series, 15 grades and 10 steps within each grade.

The current classification system, introduced in 1949, was supposed to create at least the appearance of fairness across agencies. In reality, the system has nourished a series of perverse incentives. In private industry, good managers and employees often earn raises and promotions; in the federal government, the system often stands in the way. Last October, an agency head, pleased with a staff analyst's work, told the personnel office to promote her. Since then, to satisfy personnel specialists, the analyst has filled out a federal employment application and rewritten her job description a half-dozen times. She now occupies the awkward and unintended position of competing with other job applicants for her own job, at a higher salary.

In an exhaustive study, the National Academy of Public Administration (NAPA) recently recommended that the classification system be completely overhauled. NAPA described it as time-consuming, expensive, cumbersome, and intensely frustrating. Classification standards, it argued, are "too complex, inflexible, outdated, and inaccurate." They "create rigid job hierarchies that cannot change with organizational structure." They drive some of the best employees out of their fields of expertise and into management positions, for higher pay. Managers seeking to create new positions often fight the system for months to get them classified and filled.[32]

Using demonstration authority granted by President Carter's 1978 Civil Service Reform Act, several agencies have experimented with simpler systems, using only a few career paths with only four-to-six broad pay bands within each. The first experiment took place at the Naval Weapons Center in China Lake, California, and the Naval Ocean Systems Center, in San Diego. Known as the "China Lake Experiment," it was a roaring success. It:

- Classified all jobs in just five career paths--professional, technical, specialist, administrative and clerical;

- Folded all 18 GS (General Schedule) grades into four, five or six pay bands within each career path;

- Allowed managers to pay market salaries to recruit people, to increase the pay of outstanding employees without having to reclassify them, and to give performance-based bonuses and salary increases;

- Automatically moved employees who received repeated marginal performance evaluations down to the next pay band;

- Limited bumping to one career path, and based it primarily on performance ratings, not seniority.

These new rules solved many problems that the two naval facilities faced.[33]

Another demonstration project at the McClellan Air Force Base, in Sacramento, California, involved "gainsharing"--allowing employees to pocket some of the savings they achieved using cooperative labor-management efforts to cut costs. It generated $5 million in productivity savings, improved performance, reduced grievances, complaints, sick leave and absenteeism, and improved labor-management relations.[34]

A third demonstration project at 220 Agriculture Department sites tested a streamlined, agency-based recruiting and hiring system that replaced OPM's registration process. Agencies could create their own recruitment incentives, do their own hiring, and extend the probationary period for new candidates. Managers were far more satisfied with this system than the exisitng one.[35]

To create an effective federal government, we must reinvent virtually the entire personnel system: recruitment, hiring, promotion, pay, classification and reward systems. As NAPA said last spring, "It is not a question of whether the federal government should change the way it manages its human resources. It must change."[36]

Recommendation: ***Congress should let all departments and agencies do their own recruiting and hiring for all positions, including the Senior Executive Service, and abolish all centralized registers and standard application forms.***[37]

Departments and independent agencies would create their own merit systems for recruiting and evaluating candidates for hiring and promotion. OPM could offer to screen candidates for agencies, but agencies need not accept OPM's offer. Agencies should be allowed to hire candidates directly, without ranking them through formal examinations and the like, when recruitment shortages exist, or when dealing with targeted categories such as disability or with outstanding academic qualifications. Agencies also should be permitted to conduct their own background investigations of potential candidates.

Recommendation: ***Congress should dramatically simplify the current classification system.***[38]

Congress should remove all grade level classifications from the law, enabling OPM to reduce the number of job categories by at least half. In addition, Congress should allow agencies to move from the General Schedule system to a broad-band system. OPM should develop standard banding patterns, and agencies should be free to adopt one without seeking OPM's approval.

When agency proposals do not fit under a standard pattern, OPM should approve them as five-year demonstration projects that would be converted to permanent "alternative systems" if successful. OPM should establish criteria for broad-banding demonstration projects, and agencies' projects meeting those criteria should receive automatic approval.

Congress should enable agencies that don't adopt a broad-banding system to classify their own jobs under OPM-developed standards. Finally, Congress should modify the current within-grade pay progression scheme, giving agencies more power to set pay rates.

These changes would give agencies the needed flexibility to hire, retain, and promote the best people they find. They will help agencies flatten their hierarchies and promote high achievers, without having to make them supervisors. They will eliminate many of the millions of hours now lost to battles between managers, who seek to promote or reward employees, and personnel specialists, who administer a classification system with rigid limits. They will remove OPM from its role as the "classification police." And they will send a message to all federal employees that job performance, not "time-in-grade," will determine their chances for promotion and higher pay.

Recommendation: ***Congress should pass legislation allowing agencies to design their own performance management and reward systems, with the sole objective of improving the performance of individuals and organizations.***[39]

Current systems to assess on-the-job performance were designed to serve multiple purposes: enhance performance, authorize higher pay for high performers, retain those high performers and promote staff development. Not surprisingly, they serve none of them well.

Performance management programs should have a single goal: to improve the performance of individuals and organizations. Thus, agencies should be allowed to develop programs that meet their needs and reflect their cultures, including incentive programs and awards that link pay and performance. If agencies--in cooperation with employees-- design their own systems, managers and employees alike should feel more ownership of them.

Recommendation: ***The President should deregulate personnel policy by sunsetting the 10,000-page Federal Personnel Manual and all agency implementing directives.***[40]

We must enable all managers to pursue their missions, freed from the awesome red tape of current personnel rules. The President should issue an Executive Order sunsetting the *Federal Personnel Manual* and all agency implementing directors on December 31, 1994. The order should require that the bulk of personnel management authority be delegated to agencies' line managers, and to the lowest practical level. It should direct OPM to work with agencies to determine which *FPM* chapters, provisions, or supplements are essential, which are useful, and which are unnecessary. OPM then should replace the *FPM* and agency directives with automated personnel processes, electronic decision support systems and manuals tailored to user needs.

Streamlining the Procurement Process

Along with budget and personnel, the procurement system is the third major thorn in federal employees' sides. Over the years, the federal government has developed an overly centralized system on the general (and understandable) theory that by lumping purchases and buying in bulk, it could get the best price. In theory, that may work, and it does for many of America's families and small businesses. In the reality of the federal bureaucracy, it takes decisions away from managers close to the ground and gives them to strangers, often thousands of miles away. The obvious result: Far-removed procurement officers make their own decisions about quality and speed, and buy low-quality items that often arrive way too late.

Consider the simple steam trap, which Vice President Gore has made famous across the States during the past six months. Steam traps catch oil and grit from the steam lines in heating and other systems. Each costs about $100. But when one breaks, it leaks expensive steam--about $50 worth each week. Obviously, it should be replaced quickly.

But when plumbers at the Sacramento Army Depot found leaking traps, their manager followed Standard Operating Procedure. He called the procurement office, where an officer who knew nothing about the depot followed common practice. *He* waited for enough orders to buy steam traps in bulk, saving the government about $10 per pump. So the Sacramento Depot didn't get new steam traps for a year. Each of their leaking traps spewed $2,500 of steam in the meantime. To save every $10, the central procurement system wasted thousands.

But at least in that case the government saved the $10. In others, procurement offices wait a year to buy at prices higher than you cna find at discount stores! The goverment wrote its procurement rules when retailing was highly stratified, with many middle men taking markups. By buying in bulk, centralized offices could go to wholesalers for substantial discounts. Today, retail giants like Wal-Mart and Office Depot and Price Club are vertically integrated, eliminating many middle men. And federal managers can buy 90 percent of what they need over the phone, from mail-order discounters.

Every year, Washington spends $200 billion buying goods and services. But its process is overly complex and absurdly slow: A typical organization needs 450 days to process and award a competitive contract, 600 days for one that's non-competitive.[41] The system relies on rigid rules and procedures, extensive paperwork, detailed design specifications, and multiple inspections and audits. At times, it seems almost a caricature of bureaucratic red tape. [Could use graphic demonstrating this here, from Procurement Milestone 5 paper p. 18.]

Take, for instance, the General Services Administration's rules for buying ash trays. Not only did GSA outline, in nine pages of discussions and sketches, the precise dimensions, color, polish and markings it required. It also mandated the ash tray's precise durability. When struck with increasingly severe hammer blows, ashtrays they could break into no more than 35 pieces--only counting pieces at least 1/4 inch on more than three adjacent edges! [Insert: box from the regs. in Procurement paper box.]

Or take the plight of agency financial officers. They can pay federal contractors in two ways--quickly and slowly. Under "Alternative Pay" procedures, they can make payments quickly by deferring a detailed examination of specific items on an invoice. To do so, however, they must submit a detailed plan for General Accounting Office approval. If they don't follow that plan precisely, even for the tiniest payment, auditors tend to rule that the officers are bypassing internal controls--prompting time-consuming audits, hearings and much trouble. Better to pay slowly.

Department of Defense procurement specialists -- all 31,000 of them -- face their own special nightmare. DOD serves up 889 procurement laws and 4,500 pages of companion regulations. One $1 million DOD purchase takes a professional 18 months to complete.[42]

Even simple travel arrangements are a bureaucratic nightmare. Because each department selects a "contract airline" for each route, its employees have few choices. If Northwest has the Washington-Orlando route, for instance, federal employees get routed through Detroit. If Northwest has the Boston-Washington route, employees have to use Northwest--even if U.S. Air has more frequently and at more convenient times, and even if the two airlines charge the same.

In January 1993, the Office of Federal Procurement Policy and the Merit Systems Protection Board collaborated on a survey of the procurement system's customers: federal managers. More than 1,000 responded. Their message: The system is not achieving what its customers want. It ignores its customers' needs, pays higher prices than necessary, is filled with peripheral objectives, and assumes, in its burdensome rules, that line managers cannot be trusted.[43]

Line managers do not suffer alone; the survey found procurement officers equally frustrated. They work harder and harder just to keep pace with the system's accelerating complexity. In 1980, for example, each contract specialist handled an average of $9.4 million in contracts. By 1992, he or she handled only $6.3 million--in much smaller 1992 dollars.[44] While total procurement spending rose only 6.5 percent in this period, the number of people working in procurement jumped 64 percent.

Recently, the Center for Strategic and International Studies concluded that government procurement regulations add cost without adding value and impede government's access to state-of-the-art commercial technology. Their complexity forces businesses to alter their standard procedures and raise prices when dealing with the government.[45]

To reinvent federal procurement, we must take several steps. We must radically decentralize authority to line managers, letting them buy much of what they need. We must radically simplify procurement regulations and processes. We must empower the system's customers by ending virtually all government service monopolies, including those of the General Services Administration, allowing managers to use any procurement office that meets their needs. (Chapter 2 includes recommendations on how to make the system competitive.) We must act under several fundamental principles: integrity, accountability, professionalism, openness, competition -- and value.

Recommendation: ***Congress should decentralize authority from GSA to agencies by allowing them to make purchases under $100,000 on their own.***[46]

Under current law, GSA allows agencies to make purchases of under $25,000 on their own, using simple procurement procedures.[47] These small purchases, on average, take less than a month to complete; purchases over $25,000 normally take more than three months. If Congress raised the threshold to $100,000, agencies could use simplified procedures on another 45,550 procurements--with a total value of $2.5 billion.

Congress should preserve current rules that reserve small purchases for small businesses, when feasible. But in existing requirements for posting small purchase opportunities, it should improve access to information on procurements over 25,000. To ensure that small business receives adequate notice of possible procurements, the government plans to adopt an electronic notification system. In addition, Congress should eliminate the requirement that small business bidders on federal procurement contracts receive a certificate of competency from the SBA.[48]

Recommendation: ***Congress should decentralize authority from GSA to agencies by allowing them to purchase most information technology hardware, software, and services on their own.***[49]

In 1965, when "automated data processing" meant large, mainframe computers--often developed specifically for one customer--Congress passed the Brooks Act, directing the GSA to purchase, lease and maintain such equipment. In 1986, Congress extended the requirement to software and support services. Today, with most computer equipment commercially available in highly competitive markets, centralized purchases have created enormous problems. The federal government takes, on average, over four years to buy major information technology systems; the private sector takes 13 months.[50] Due to rapidly changing information technology, most federal systems already are technologically obsolete when installed.

No central agency can effectively buy complex information technology resources for hundreds of other agencies. Currently, GSA authorizes agencies to buy up to $2.5 million in equipment and services over five years on their own. The government should raise this amount to $50 million for agencies with large information technology budgets, $5 million for those with small ones, and $20 million for those in between. Agencies with good management records should get even wider latitude. GSA should waive requirements that agencies develop analyses of alternatives if the technology in question is mass produced and offered on the open market. And Congress should amend the Brooks Act to exclude such commercial items.

Recommendation: ***The President should simplify the procurement process by rewriting the Federal Acquisition Regulation and Executive Order 12352 on Federal Procurement Reforms--shifting from rigid rules to guiding principles.***[51]

The Federal Acquisition Regulation (FAR) is over 1,600 pages long and supplemented by 2,900 pages of agency regulations. Line managers think there are too many rules. Rules are changed too often and are so process-oriented that they minimize discretion and stifle innovation, according to a Merit Systems Protection Board survey.[52] As a frustrated manager noted, the FAR does not even clearly state the main goal of procurement policy: "Is it to avoid waste, fraud, and abuse? Is it to implement a social-economic agenda? Is it to procure the government's requirements at a fair and reasonable cost?"

The President should create an "Acquisition Policy Reinvention Task Force" to rewrite the FAR and agency supplements, and the Office of Federal Procurement Policy should create an interagency task force to rewrite Executive Order 12352. The new regulations should:

- Shift from rigid rules to guiding principles;
- Promote decision making at the lowest possible level;
- End unnecessary regulatory requirements;
- Foster competitiveness and commercial practices;
- Facilitate innovative contracting approaches; and
- Recommend acquisition methods that reflect information technology's short life cycle.

In addition, the Federal Acquisition Regulation Council, which coordinates procurement policy, should develop a more effective process to listen to its customers: line managers, businesses and government procurement officers. The government should merge the two boards responsible for developing regulatory changes--Civilian Agency Acquisition Council and Defense Acquisition Regulation Council.

Recommendation: ***GSA should simplify the procurement process by eliminating mandatory supply schedules, raising the maximum order limitation for information***

technology acquisitions of supply schedules, and testing a fully "electronic marketplace."[53]

Under the Multiple Award Schedule program, GSA negotiates and awards contracts to multiple vendors of comparable products and services, at varying prices. GSA then creates a "supply schedule" for a particular good or service, identifying all vendors that have won contracts as well as the negotiated prices. Of GSA's 154 schedules, civilian agencies must adhere to 117. In ordering from schedules, agencies still must comply with the Federal Acquisition Regulation, Federal Information Resource Management Regulation, and Federal Property Management Regulation.

In most cases, we should not limit managers to items on the supply schedules. If they can find the same or a comparable product for less, they should be free to buy it. Mandatory schedules should apply only when required by law, or when agencies voluntarily create team pools that buy in bulk for lower prices. In addition, GSA should revise regulations now limiting information technology items on supply schedules to $300,000 to $500,000 and provide a higher limit for individual items costing above $500,000.

To make supply schedules more user-friendly, GSA should conduct several pilot tests. One should test an "electronic marketplace," in which GSA would not negotiate prices. Instead, suppliers would list products and prices electronically, and agencies would electronically order the lowest-priced item that meets their needs. Suppliers, at any time, would be able to add new products and change prices. This pilot would test whether visible price competition will cut prices and give line managers easier access to rapidly changing products.

Recommendation: ***Congress should simplify labor laws dealing with procurement, such as the Davis-Bacon Act, the Copeland Act and the Service Contract Act, and repeal the Walsh Healey Public Contracts Act.***[54]

[Write up after approval by VP.]

Reorienting the Inspectors General

Responding to growing concern about waste, fraud and abuse, Congress in 1978 passed the Inspector General Act. It created what are today's 60 Inspectors Generals' office, with 15,000 employees and a combined (?) $1.3 billion budget.

The act is quite ambitious. It asks IGs to investigate possible fraud and abuse, audit program expenditures, and promote the efficiency, economy and integrity of federal programs. The law's reporting requirements, however, have driven most IGs to focus on investigations and audits. The act requires that IGs submit semi-annual reports to Congress, detailing the number of dollars recovered or put to better use and the number of convictions resulting from criminal investigations. These mandates--combined with the last two administrations' eagerness to highlight "waste, fraud and abuse"--shaped the IG offices' evolution. Today, few IGs spend their time conducting real performance audits.

Consequently, the IGs--which report to Congress, not their own departments--have extremely adversarial relations with department line managers. At a "town meeting" at the Transportation Department, one manager told how her unit, the Federal Aviation Administration's Airway Facilities division, developed a training process that will save some $5 million a year. "That," she explained, was "the easy part."

> *Let me tell you what happens after that. The IG gets called. We're going into a whole different way of doing business and there are people who don't like that. And they pick up the hot line and they call the IG. And the IG is going to find something wrong. We're talking about a lot of judgment calls here, and that means a lot of gray area. And we're punished. I can give you names of people who [are] saving millions of dollars a year for the government and they are being besmirched professionally, they are being hurt.*

The auditors can always find something wrong, she pointed out.

> *You didn't mean to do something wrong, but you're working in a very short time frame to get things done. You're product oriented. And you're going to make some mistakes. It's not intentional. It's not with malice. It's not for you to make a personal profit. It's that you want to get something done. They don't come talk to you, they talk to everyone around you. And by the time they come to you, your name has been besmirched. Everyone is talking about what's been said about you. And there's a cloud that exists then for years and years.*

The Vice President heard a version of this complaint at virtually every agency he visited. Throughout the federal government, top to bottom, the IGs' heavy hands inhibit innovation. They force employees to follow every rule, document every decision, fill out every form--everything but ensure the program works.

We must shift the IGs' focus from auditing the process to helping produce results. Congress need pass no legislation: Apart of their mandate, the IGs are supposed to focus on results.

Recommendation: ***The Inspectors General should change their role from policeman to management consultant. The IGs should negotiate performance agreements with agency heads, and the President's Management Council should develop a system to evaluate IGs.***[55]

Today, IGs seek to control line managers' behavior. Were government focused on results, they would help to improve it. Today, they audit for strict compliance with rules and regulations. Tomorrow, they should help managers evaluate their management control systems. Today, they punish line managers for "waste, fraud, and abuse." Tomorrow, they should help them improve systems to cut unnecessary spending, *prevent* fraud and abuse, and ensure efficient, effective service.

Such change will require a cultural revolution within many IGs' offices. To push it along, the President's Management Council should establish criteria to use in hiring any new IGs. In addition, line managers--the IGs' front-line customers--should be surveyed periodically to see whether they believe the IGs help them improve performance.

[We need more here.]

Eliminating Regulatory Overkill

Reinventing our budget, personnel and procurement systems and reorienting the Inspectors General will strip away much of the red tape that paralyzes federal employees--but not all. Thousands upon thousands of outdated, overlapping regulations will remain. To cut the final Lilliputian ropes on the federal giant, we must take the knife to an even wider array of regulatory and control systems.

Recommendation: ***The President should issue an executive order to reduce internal regulations by 50 percent over the next two years.***[56]

In government--where almost everything is measured somewhere--we have no measurement of how much regulation costs and how much time it takes away from productive work. But there's no disagreement on this: We have an overregulated system. We must clear the thicket. Our goal must be to release federal workers to do their jobs effectively and creatively.

How many regulations can be eliminated? In the Management Efficiency Pilot Program in the Veterans Administration, VA medical centers were encouraged to do away with red tape. The results were positive.[57] At one center, 895 of 1,940 regulations were dropped, saving the staff over 300 days and $640,000. In one year of measurement (1988-89), productivity at MEPP centers increased by 35 percent, more than double the increase at the other stations.

We urge that we go beyond experimentation, starting with a 50 percent reduction target over the next two years.

Recommendation: ***The President should establish a process by which agencies can more widely obtain waivers from regulations.***[58]

The Government Performance and Results Act, which Congress passed and the President signed this summer, recognized the need for "managerial accountability and flexibility waivers." Under the act, some agencies will get authority to apply for waivers from federal regulations, provided they adhere to higher specific performance targets. The law also urged a wider granting of waivers in order to test their potential benefits. In that spirit, we urge an expansion of the waiver process.

Recommendation: ***Streamline the regulatory review process.***[59]

In 1981, frustrated at the inconsistencies and duplication among federal regulatory efforts, the President required the Office of Management and Budget to review all regulations proposed by executive agencies. The purpose was to ensure that regulations complied with various executive orders, to oversee the consistency of regulations with the President's policy agenda, and to resolve conflicts among agencies. The result was the creation of the Office of Information and Regulatory Affairs (OIRA). With a limited staff, three-quarters of whom are employed on paperwork reduction issues (the office's other major responsibility), the process of reviewing all proposed regulations can take a long time.

To break the log-jam, we propose that OMB should review only those proposed regulations that will have significant economic, fiscal, or social impact. All other regulations should be reviewed on a random sample basis. This will greatly cut down on OMB's workload and enable agencies to introduce regulations faster.

Recommendation: ***The Office of Management and Budget should delegate routine***

paperwork review to the agencies and deploy OMB's resources more effectively to attack systemic problems.[60]

Under the 1980 Paperwork Reduction Act, OMB's Office of Information and Regulatory Affairs reviews agency information collection requests on a case-by-case basis. While that process was designed to protect agency customers from burdensome information requests, it has produced a bottleneck that prevents agencies from gathering the information they need in a timely manner. We propose to return such decisions to agencies, and refocus OMB on programmatic review.

Recommendation: ***Reduce the burden of Congressionally-mandated reports by eliminating all but two annual reports per agency.***[61]

Woodrow Wilson was right. Our country's 28th president once wrote that "there is no distincter tendency in congressional history than the tendency to subject even the details of administration" to constant congressional supervision. There are countless examples. Imagine the surprise of Interior Secretary Bruce Babbitt, who recently discovered that he is under orders from Congress to maintain 23 positions in the Wilkes-Barre, Pennsylvania, field office of his department's anthracite reclamation program. Or that his department must spend $100,000 this year training beagles in Hawaii to sniff out brown tree snakes. Edward Derwinski, former secretary of Veterans' Affairs, was once summoned before the congressional delegation from Texas to explain his plan to eliminate 38 jobs in that state.[62]

One place to start in liberating agencies from Congressional micromanagement is the issue of reporting requirements. Over the past decades, we have thrown layer upon layer of financial reporting requirements on federal agencies, creating an almost endless series of required audits, reports, and exhibits.

Tcday the annual calendar is jammed with report deadlines. On August 31 of each year, the Chief Financial Officers (CFO) Act requires that agencies file a five year financial plan and a CFO annual report; on the same day, the Debt Collection Act requires a credit management improvement plan. On September 1, budget exhibits for financial management activities and high risk areas are due. On November 30, Inspector Generals' reports are expected, along with reports required by the Prompt Pay Act. On January 31, reports under the Federal Civil Penalties Inflation Report Adjustment Act of 1990 come due. On March 31, financial statements and CFO annual reports must be filed. On May 31 another round of IG reports are due. At the end of July and December, "high-risk" reports are filed. And on August 31, it all begins again. And these are just the major reports! [Insert table from Management Control Paper, pp. 47-48]

Altogether, Congress requires executive branch agencies to prepare 5,348 reports each year.[63] Much of this work is duplicative. And because there are so many different sources of information, no one gets an integrated view of an agency's condition--least of all the agency manager who needs accurate and up to date numbers. Meanwhile, trapped in this blizzard of paperwork, no one is looking at results.

We propose to consolidate and simplify reporting requirements, and to redesign them so that the manager will have a clear picture of the agency's financial condition, the condition of individual programs, and the extent to which the agency is meeting its objectives. We will propose legislation 1) granting OMB the flexibility to consolidate and simplify statutory reports; 2) requiring agency heads to provide only two annual reports, a planning report and an accountability report; and 3) including a sunset provision in any reporting requirements adopted by Congress in the future.

Step 2: Deregulate state and local governments

> *Were we directed from Washington when to sow and when to reap, we should soon want for bread.*
> *Thomas Jefferson, 1826*

What we usually call "government" is, in fact, a tangle of different levels of government agencies--some run from Washington, some in state capitals, and some by cities and towns. In the United States, in fact, some 80,000 "governments" run everything from local schools and water supply systems to the Defense Department and embassies overseas. Few taxpayers, though, differentiate between levels of government: to the average citizen, a tax is a tax is a tax--and a service a service--regardless of which level of government is responsible. For the public to embrace our federal reinvention efforts, we must adress the web of federal-state-local relations.

Washington provides about 16 percent of the money that states and localities spend--and shapes a much larger share of such pending through mandates. Much of Washington's domestic agenda--$225 billion, to be precise--consists of programs actually run by states, cities, and counties. But the federal government doesn't always distribute its money--or its mandates--wisely.

For starters, Washington fragments federal money into 606 different grant programs. Many are tiny; 445 of them distribute less than $50 million a year, **nationwide**. Some 275 distribute less than **$10 million!**[64]

With grants, Congress funds almost 150 education and training programs, 100 social service programs, and over 80 health care programs. Many comprise only $3 or $4 million. In recent years. for example, more than half of the Education Department's 90 grant programs distributed under $15 million.

When a department operates 90 small grant programs, it produces more bureaucracy, not more services. Thousands of public employees--at all levels of government--spend millions of hours writing regulations, writing and reviewing grant applications, filling out forms, checking on each other, and avoiding oversight. Consequently, professionals and bureaucrats siphon billions of dollars from the programs' intended customers: students, the poor, and urban residents.

On their own, many categorical grant programs make sense. But together, they often work against the very purposes why they were established. States and localities find their money fragmented into hundreds of tiny pots, each with different, often contradictory rules, procedures, and program requirements.

In employment and training, for example, Washington funds training programs, literacy programs, adult education programs, tuition grant programs, and vocational education programs. Different programs are designed for different groups: welfare recipients, Food Stamp recipients, displaced homemakers, youth in school, drop-outs, "dislocated workers," workers displaced by foreign trade, workers displaced by the spotted owl, "displaced homemakers," and so on.

At a plant in Pittsfield, Massachusetts, General Electric recently laid off a large group of workers. Some workers could get Trade Adjustment Assistance benefits, because their jobs were lost to foreign competition. Others could not; their jobs fell to defense cutbacks. Because they have a union, people working in one area began exercising their seniority rights and bumping people in other areas. Some workers bumped from trade-affected jobs to defense contracting jobs then lost those a few weeks later. Under federal regulations, they could no longer get Trade Adjustment Assistance. Thus, friends who had spent years working side by side found themselves with very different benefits. Some got the standard six months of unemployment checks. Others got two years of unemployment checks and extensive retraining support. Try explaining that to people who've lost the only jobs they've ever held![65]

People who run such programs struggle to knit together funds from three, four, or five programs, hoping workers get enough retraining to land decent new jobs. But the task is hard; each program has its own requirements, funding cycles, eligibility criteria, and the like. One Employment Center in Allegheny County, New York, has tried hard to bring several programs together and make them appear as seamless as possible to the customers.

At the end of the day, to accommodate reporting requirements, the staff enters information on each customer at four different computer terminals: one for Job Training Partnership Act (JTPA) programs, one for the JOBS program, one for the Employment Service, and one for tracking purposes.[66]

The rules and regulations behind federal grant programs were designed with the best of intentions--to ensure that funds flow for the purposes Congress intended. Instead, they often ensure that programs don't work.

Consider what happened in Cincinnati. Local officials were using federal Community Development Block Grant funds, along with public and private local money, to create new and rehabilitated housing for low-income residents in a blighted area. The citywanted to use federal job training funds to hire and train unemployed people on the construction sites. A good idea? Sure. A feasible one? No. Conflicting regulations in the two federal programs made it impossible.[67]

When Congress enacted JTPA, it sought to avoid such problems. It let local areas tailor their training programs to local needs. But federal rules and regulations have gradually undermined the good intentions. Title III, known as the Economic Dislocation and Worker Adjustment Assistance Act, helps states respond immediately to plant closings and large layoffs. Yet even EDWAA's most flexible money, the "national reserve fund," has become so tangled in red tape that many states won't use it. As Congress's Office of Technology Assessment put it, "the process is simply too obstacle ridden. ... many state EDWAA managers cannot handle the complexities of the grant application, and those that do know how are too busy responding to clients' urgent needs to write demanding, detailed grant proposals."[68]

When Congress amended JTPA this year, targeting more funds to those with "multiple barriers" to employment, homeless advocates thought the change would help their clients. After all, who has more barriers to employment than someone without an address or phone number? But the new JTPA formula also emphasized training over job search assistance. So a local program in Washington, D.C. that won a Labor Department award for placing 70 percent of its clients in jobs lost its JTPA funding. Why? It didn't offer training. It just helped the homeless find jobs.

But federal overseers rarely seem to care about results. They're more interested in the process than the outcome--in this case, in the training than the jobs. Even in auditing state and local programs, they often do little more than check to see whether proper forms are filed in proper folders.

Think of the federal grant system as a giant stove of domestic program delivery, fueled by 606 different pipes. As more and more pipes appear, competing for space and getting tangled in red tape, the "funding streams" feeding those pipes wither into trickles. Yet the cooks rarely can combine them. (Rather than "streams," they are really "puddles"; they never mix.) The result? The meal remains uncooked.

Virtually every expert with whom we spoke agreed that this system is fundamentally broken. No one argued for marginal or incremental change. Everyone wants dramatic change--state and local officials, federal managers, Congressional staff. As in managing its own affairs, the federal government must shift the basic paradigm it uses in managing state and local affairs. It must stop holding programs accountable for process, and begin holding them accountable for **results**.

The task is daunting; it will take years to accomplish. We propose several significant steps on the journey:

- Consolidate 55 categorical grants into broader "flexible grants;"
- Increase state and local flexibility in using the remaining categorical grants;
- Let all agencies waive rules and regulations when they conflict with results;
- Cut the number of unfunded mandates that Washington imposes; and
- Deregulate the public housing program.

The likely benefits are clear: administrative savings at all levels; greater flexibility to design solutions; more effective concentration of limited resources; and programs that work for their customers.

Recommendation: ***Congress should consolidate 55 categorical grant programs with funding of $12.9 billion into six broad "flexible grants"--in job training, education, water quality, defense conversion, environmental management, and motor carrier safety.*** **[CHECK]***[69]

This proposal came from the National Governors' Association and National Council of State Legislatures, which describe it as "a first step toward broader, more ambitious reforms."[70] It would consolidate some 20 employment and training programs, with a combined $5.5 billion in fiscal 1993 spending; roughly 10 education programs ($1.6 billion); 10 environmental programs dealing with clean air, hazardous waste, toxic materials, pesticides, and radon ($392 million); six water quality programs ($2.66 billion); six defense conversion programs ($460 million); and two motor carrier safety programs ($76 million). We chose these consolidations in part because they don't force Congressional committees jurisdictions to change.

Recommendation: ***Congress should allow states and localities to consolidate separate grant programs from the bottom up.***[71]

States and localities should have authority to mix funding from different programs, without Washington's approval, if the amount [or the amount in each grant??? Proposal is unclear] totalled less than $10 million. The consolidating agency would have to notify the responsible federal awarding office, show that the consolidation would address the program's national objectives, and define the measures that would evaluate the effort's success. For a consolidation of at least $10 million, the federal awarding office (and state, if applicable), would have to approve it. When different grants' regulations conflicted, the consolidating agency would select which one to follow. States and localities that demonstrated effective service integration through consolidation would receive preference in future grant awards.

Recommendation: ***Congress should give all cabinet secretaries and agency heads authority to grant states and localities selective waivers from federal regulations or mandates.***[72]

For federal grant programs to work, managers must have flexibility to waive rules that get in the way. Some departments have this authority; others don't. Federal decisions on most waivers come very slowly, and states often have must apply to a half-dozen agencies to get the waivers they need. Florida, for example, has a two-year waiver allowing it to provide hospice care to AIDS patients under Medicaid. Its renewal takes 18 months. So state officials had to reapply after only six months. Waiver legislation should grant broad wavier authority, with the exception of fair housing, non-discrimination, environmental, and labor standards.

Recommendation: ***The President should issue an executive order limiting the use of unfunded mandates by the administration.***[73]

The order would narrow the circumstances under which departments and agencies could impose new unfunded burdens on subordinate governments. It also would direct federal agencies to review their existing regulations and reduce the number of mandates that interfere with effective service delivery. OMB's Office of Information and Regulatory Affairs should review all regulations or legislation proposed by the executive branch for possible adverse impacts on states and localities. Finally, OIRA's director should create a forum in which federal, state, and local officials could develop solutions to problems involving unfunded mandates.

Recommendation: ***The Department of Housing and Urban Development should devolve control of public housing to local public housing authorities with histories of excellent management and substantially deregulate the rest.***[74]

Public housing is worse than a categorical grant program. It's a federal program run with tight central control from Washington, but operated by thousands of local public housing authorities across the nation. It epitomizes the industrial-era program: hierarchical, rule-bound, and bureaucratic. HUD's Washington, regional, and local offices rigidly control the local authorities, who struggle to help the very poor.

Indeed, public housing is the classic story of good intentions gone awry. When the program began in the 1930s, it was hailed as an enlightened response to European immigrants' squalid living conditions in cities across the nation. It represented a partnership between the fed government, which provided construction and (later) operating subsidies; the states, which assisted Washington in enforcing federal regulations; and local public housing authorities, which operated housing projects.

By the 1970s, public housing had come to symbolize everything wrong with the "liberal" approach to solving social problems. Inflexible federal standards, local political and social realities, the size and architecture of the projects--all these factors helped to create and perpetuate high-rise projects in our worst urban areas.

In response, during the 1980s, innovative state and local governments began to experiment with new models of developing, designing, financing, managing, and owning low-income housing. Successful efforts tailored the housing to the characteristics of its surrounding community. Local public housing authorities began to work with local governments and non-profit organizations to create innovative new models to serve low-income people.

Now, HUD must recognize that local authorities with proven records of excellence can serve their customers far better if allowed to make their own decisions. Congress should give HUD authority to create demonstration projects, in which local housing authorities would continue to receive operating subsidies as long as they met a series of performance targets, but would be free from other HUD control. Individual demonstrations could vary, but all federal rules would be open for waivers as long as HUD could measure performance in providing long-term, affordable housing to those poor enough to be eligible for public housing.

In addition, HUD should work closely with local housing authorities, their national organizations, public housing tenant organizations, and state and local officials to eliminate unnecessary rules, requirements, procedures, and regulations. In particular, HUD should replace its detailed procurement and operating manuals and design and site selection requirements with performance measures, using annual ranking of local housing authorities to encourage better service and greater accountability. It should eliminate the annual budget review, an exercise in which HUD field staff spend thousands of hours reviewing and approving detailed budgets from local housing authorities--even though the reviews do not influence federal funding decisions. And it should work with Congress to change current rent rules, which create strong incentives for people to move from public housing as soon as they find jobs.

Step 3: Hold bureaucrats accountable for results.

Freedom from rules and regulations goes hand-in-hand with individual responsibility; you can't have one without the other. By freeing agencies from narrow line-item restrictions and micromanagement, and freeing states and localities from categorical programs and over-regulation, Congress will loosen its control over process. Agencies, states, counties, and cities will be less accountable for spending in precise categories and following overly restrictive rules. They will, however, be more accountable for results.

Taxpayers do not care which rules the bureaucracy follows, but rather how well it serves them. We want health programs that reduce infant mortality, training programs that prepare people for jobs, and environmental programs that cut the health risks of polluted air. In other words, we want programs that achieve results.

But government does not judge most programs by their results. We have health programs to increase the number of doctors in poor communities, training programs to enroll a certain number of jobless people, and environmental mandates that put catalytic converters on automobiles. These programs may sound correctly focused.

They aren't. When we push doctors to serve in poor rural areas, we don't necessarily get a healthier community; that depends what the doctors and, more importantly, their patients do. When we focus on how many jobless people enroll in a training program--not how many subsequently find well-paid jobs--we shove people into programs that don't necessarily fit their needs.

Some of the worst cases of public waste are not rooted in corruption, or even incompetence. They are programs that are properly managed, but don't work. They don't help the intended beneficiaries.

But we don't discover the problem for years because we don't measure results. We throw good money after bad because the piles of paperwork that managers fill out don't ask whether programs produce the desired results. They only tell us whether they are properly run.

As one employee put it, "Process is our most important product."

The National Performance Review plans to change that. "Today," Vice President Gore told a departmental meeting earlier this year, "all we measure is inputs. We don't measure outputs--and that's one of the things we're going to change throughout the federal government."

Implementing the Government Performance and Results Act

To its credit, Congress recognized the problem. In July, it passed the Government Performance and Results Act, which states, "public confidence in the institutions of American government is suffering from a perception that those institutions are not working well."

The Act requires that beginning in fiscal 1994, at least 10 federal programs operate for three years as pilot projects which develop annual performance plans that specifymeasurable goals and annual reports that show results. At least five of the pilots also will test "managerial flexibility waivers"--exemptions from some administrative regulations that program officials will negotiate with OMB and perhaps other oversight agencies in exchange for higher specific performance targets.

Beginning in fiscal 1998, all federal agencies (except very small ones that OMB exempts) will have to use performance plans, beginning in 1998. The agencies will have to develop five-year strategic plans, annual performance plans, and annual performance reports. (Some agencies, whose activities can't be quantified, could use qualitative rather than quantitative goals and measurements.)

Had the Government Performance and Results Act not passed, the National Performance Review would have proposed something like it. Now that it's law, we recommend a number of steps to maximize its impact.

Recommendation: ***The President, through OMB, should encourage every federal program and agency to begin strategic planning and performance measurement, whether it is selected as a pilot or not.***[75]

Rather than awaiting the results of the 10 pilot projects, OMB should encourage all agencies to more aggressively use performance measurement and planning. The President should adopt the following principle: "Our national goal is that every federal agency and program be the best in its class."

Recommendation: ***Both OMB and agencies should begin to incorporate performance objectives and results into the budget process.***[76]

OMB should revise Circular A-11 to require that agencies discuss their records, expectations, or other aspects of their perfomance in their budget requests. OMB should request that agencies improve their performance indicators that are inadequate. Unless OMB exercises this authority, weak measures--i.e., those focused on process, not outcomes--will undermine the credibility of this effort. OMB also should ensure that agencies reallocate enough resources to strategic planning and performance measurement.

Recommendation: ***The administration should work with Congress to clarify the objectives of federal programs and identify those where confusion about objectives is hampering performance.***

As noted above, Washington has given many agencies multiple, often conflicting objectives. Not infrequently, the Executive branch seeks one objective, Congress another, and interest groups still others. Before long, agencies are all things to all people. Underthose circumstances, however, managing for results becomes well-nigh impossible. If we want programs to work, the Administration and Congress must draft laws that streamline their objectives.

Holding Top Management Accountable for Results

When General Eisenhower took command of the Allied Expeditionary Force in World War II, he was given a mission statement that clearly delineated goals for his vast organization of over 300,000 men and women: "You will enter the continent of Europe and, in conjunction with the other United nations, undertake operations aimed at the heart of Germany and the destruction of her armed forces.

Two decades later, President Kennedy gave NASA an even clearer objective: Put a man on the moon by the end of the decade.

By contrast, civilian government has tended not to clearly define its expectations for its leaders. And, as the saying goes, "If you don't know where you are going, you will probably end up somewhere else."

Many of America's best-run businesses illustrate the importance of tying performance agreements to overall organizational goals and to team performance. Hewlett Packard, Microsoft, Xerox, and others involve their full work forces in identifying a few overall goals; then, sections translate them into specific team goals.

In Great Britain, Australia, and New Zealand, many department and agency heads are appointed for limited terms and given performance agreements. Their reappointments depend on their achieving measurable outcomes. Senior officials from these countries say that these agreements have improved organizational performance more than any other aspect of their reinventing government efforts.

In the U.S., many local governments do much the same. As we have said, Sunnyvale, California's managers can earn bonuses of up to 10 percent of their salaries if their agencies exceed performance targets.

In Washington, though, no written agreements link the president's goals with the performance of top political appointees. In fact, political appointees are the only federal personnel category without such performance agreements. In a new administration--irrespective of political party--no established process outlines to senior appointees the president's goals and objectives for their departments.

Recommendation: ***The administration should develop written performance agreements with department and agency heads, who in turn should develop such agreements throughout their management structures.***

The Administration's agreements with Cabinet secretaries and agency heads should focus on just a few broad, measurable goals of importance to the President (including a department or agency's reinvention). Past efforts to institute management by objectives collapsed under the weight of too many objectives and too much reporting. The process should begin with the top 24 agency heads.

Not everyone will welcome performance agreements. All of us like to think we are already doing the best we can. Many of us are. But doing our best may be different than doing well. Everyone who starts a new restaurant tries hard to succeed. Most fail. Similarly, not everyone is a born public manager. Duration within the civil service--the basis of many promotions--does not necessarily indicate managerial ability.

Nor will everyone welcome outcome measures. For one thing, federal employees

Measuring Outcomes

Outcome-based management is not new. But in the public sector, it is fairly recent. Several U.S. cities have developed it over the past two decades; some states are beginning to; and foreign countries such as Great Britain, Australia, and New Zealand are on their way.

In Sunnyvale, a city of 120,000 in the heart of the Silicon Valley, the experiment began 20 years ago. In each of its policy areas, the city defines sets of "goals," "community condition indicators," "objectives," and "performance indicators." "In a normal political process, most decision makers never spend much time talking about the results they want from the money they spend," says City Manager Tom Lewcock. "With this system, for the first time they understand what the money is actually buying, and they can say yes or no."

Sunnyvale uses performance data to reward managers who succeed. If a program exceeds its objectives for quality and productivity, its manager can receive a bonus of up to 10 percent of salary.

Like the private sector's marketplace, performance-based budgeting generates pressure for ever-higher productivity. The result in Sunnyvale: average annual productivity increases of four percent. From 1985 to 1990, the city's average cost of service dropped 20 percent, in inflation-adjusted dollars. Sunnyvale used 35-45 percent fewer people to deliver most services than other cities of similar size and type, according to a 1990 comparison. Its employees were better paid, its operating budget was lower than most and its per-capita taxes were lower than any in the sample.

At least a half-dozen states hope to follow in Sunnyvale's footsteps. Oregon has gone furthest.

In the late 1980s, Governor Neil Goldschmidt created a strategic planning process, with significant citizen input, to develop long-term state goals. He set up the Oregon Progress Board, comprising public and private leaders, to manage the process. The board developed goals and benchmarks through 12 statewide meetings and written materials from over 200 groups and organizations. "Oregon," the board stated, "will have the best chance of achieving an attractive future if Oregonians agree clearly on where we want to go and then join together to accomplish those goals."

The Legislature approved the board's recommendations, which included 160 benchmarks to measure how Oregon is faring on three general goals: exceptional individuals; outstanding quality of life; and a diverse, robust economy. Seventeen measuresare deemed to be short-term "lead" benchmarks, related to urgent problems on which the board seeks progress within five years. They include reducing the teen pregnancy rates, enrolling people in vocational programs, expanding access to basic health care, and cutting worker compensation costs.

Another 13 benchmarks are listed as "key"--fundamental, enduring measures of Oregon's vitality and health. These include improving basic student skills, reducing the crime rate, and raising Oregon's per capita income as a percentage of the U.S. average.

Barbara Roberts, today's governor, has translated the broad goals and benchmarks into specific objectives for each agency. This year, for the first time, the objectives were integrated into the budget--giving Oregon the first performance-based budget among the states.

Great Britain has instituted performance measurement throughout its national government. In addition, the government has begun writing three-year performance contracts, called "Framework Agreements," with about half of its agencies. These agencies are run by chief executive officers, many from the private sector, who are hired in competitive searches and then negotiate the agreements, specifying objectives and performance measures. If they don't reach their objectives, the CEOs are told, their agencies' services may be competitively bid after the three years.

will have trouble developing them. Public employees generally don't focus on the outcomes of their work; they think about process. Consequently, they tend to measure their work volume, not its results. Most public organizations need several years to move from process measures to output measures to outcome measures.

Much government work is hard to measure correctly. And improper measures can cause serious problems. For instance, managers who know their performance is being measured tend to behave differently: they concentrate on generating good numbers, whether to earn a larger budget a year later, praise from the community they serve, or other recognition. Chasing improper measures, managers can push organizations in the wrong direction. On the other hand, those adversely affected tend to force public organizations to re-evaluate their measures. So, bad measures tend to force their own correction.

Ultimately, managers cannot generate results without knowing how their "bottom line" is defined. Without a performance target, managers manage blindly, policy makers do not know what's working, and customers have no idea where they may be best served. If, for instance, jobless people know how well graduates of local training programs fare when looking for work, they can better choose what new careers to pursue and what programs offer the best prospects. Educated consumers can most strongly enforce accountability in government.

No outcome measure is perfect, but even imperfect ones are better than none. The task of delineating outcome measures profoundly changes the focus of many programs. It begins to create incentives that drive organizations to continually improve what they do. Line managers know to what standard they are being held; if they are then rewarded for success, they tend to work harder.

[AWAITING FINAL DECISION:

Recommendation: ***The administration should establish an Office of Government Performance to develop measurable outcomes and to modernize management throughout the federal government.***]

What this means for you

The changes described above are ambitious. They will take enormous effort and enormous will. It will be many years before all of them take root. But if they succeed--if we can shift the federal behemoth from red tape to results--the American people will have a government capable of attacking their problems with far more energy, and far less waste, than they can today imagine.

The changes outlined above will release the same surge of creativity and enthusiasm within government ranks that those made by our forefather 200 years ago released. They will crate the same survey in productivity and effectiveness that American corporations have experienced as they have reinvented themselves. And they will save an enormous amount of money.

As we pare down the systems of over control and micromanagement in government, we must also pare down the structures that go with them: the oversized headquarters, multiple layers of supervision, and offices specializing in the arcane rules of budgetting, personnel, procurement, and finance. We cannot do entirely without headquarters, supervisors, or specialists, but these structures have grown twice as large as they should be.

Not counting the suffocating impact they have on line managers and workers, we spend roughly $40 billion a year on our central control structures. If Congress enacts the reforms outlined above, we propose to cut these structures in half--then reinvesting one-quarter of the savings in the new management tools we need, such as performance measurement, quality management, and training.

We must move quickly, because the structures of central control will naturally resist the cultural change we must make. As Tom Peters wrote in Thriving on Change, "Good intentions and brilliant proposals will be dead-ended, delayed, sabotages, massaged to death, or reversed beyond recognition or usefulness by the overlayered structures...."

Our aggressive attack on the offices of central control must no become an attack on the dedicated civil servants who work there. They have faithfully done the jobs we have asked them to do. We owe them the opportunity to reinvent their careers, to be retrained and perhaps relocated, and to begin more productive and valuable work--providing service rather than controlling those who do.

Our commitment is this: *If an employee whose job is eliminated cannot retire, through our early retirement program, and does not elect to take a cash incentive to leave government service, then we will make sure that employee gets another job offer, either with government or in the private sector.*

This will be expensive, but it is the right thing to do. Even with this commitment, the downsizing we propose will save the taxpayer $TK billion over the next five years.
1. USDA, Starting Over, No date.

Chapter 2
Creating Competitive Government

All of us--bureaucrat or business owner, cabinet secretary or office clerk--respond to incentives. We do more of what brings us rewards, less of what brings us criticism. But our government, built around a complex cluster of monopolies, insulates both managers and workers from the power of incentives.

We must change the system. We must liberate our government from the grip of monopolies by injecting the dynamics of the marketplace.

The best way to deal with monopoly is to expose it to competition. Let us be clear: this does *not* mean we should run government agencies exactly like private businesses. After all, many of government's functions are public responsibilities precisely because the private sector cannot, should not, or would not manage them. But we can transplant some healthy aspects of the business world into the public arena. We can create an environment that commits federal managers to the same struggle to cut costs and improve quality that compels private managers. We can imbue the federal government--from top to bottom--with a driving sense of accountability.

Is it really possible to reinvent government in this way? Horror stories about government waste are so abundant that many doubt its capacity to change. For some, the only solution is to cut or abolish programs wholesale. But with every federal program backed by a loyal constituency, we don't get far when we try to reform government with a budget ax. That's one reason for the budget deficit. And it's a big reason why the government continues to fail.

We propose a different approach: Instead of arguing endlessly about which programs to cut and by how much, we must make the government we have more effective and efficient. Some programs clearly should be eliminated, other streamlined. We will offer many proposals to do both in Chapter 4 and in the TK papers that accompany this report. But reinventing government isn't about just trimming programs; it's about changing the way government does everything. By forcing public agencies to compete--with other public agencies and with the private sector--we will create a permanent pressure to streamline programs, abandon the obsolete, and improve what's left.

This process will be neither quick nor easy. But as it unfolds, a very different type of government will emerge, one accountable to its true customers--the public.

We propose five specific steps to break federal monopolies, inject competition into government, and provide incentives for federal employees to better serve their customers.

First, we will require that all government agencies and federal employees put customers first by regularly asking how they view government services, what problems they encounter, and how they would like services improved. We will ensure that all customers have a voice--and that every voice is heard.

Second, we will make agencies compete for their customers' business. Wherever feasible, we will dismantle government's monopolistic dinosaurs, including those that buy goods and services, acquire and maintain office space, and print public documents. These internal monopolies serve government workers so poorly, it is no wonder those workers have trouble serving customers outside government.

Third, when competition isn't feasible, we will turn government monopolies into more business-like enterprises--enterprises in closer touch with both customers and market incentives.

Fourth, we will ask the customers of some federal services to pay user fees, to give managers customer feedback about the value of their services and market incentives to respond to customers' needs.

Fifth, we will encourage investment in higher productivity and performance. We will let managers set aside savings they've earned through greater efficiency and invest them in new technology, training, and other paths to higher performance. We will even let agencies borrow money from a series of "Innovation Funds," to invest in continuous improvement.

Sixth, we will shift some federal initiatives from administration bureaucracies to market mechanisms. We will use federal powers to structure private markets in ways that solve problems and meet citizens' needs--whether for job training or a safe workplace--without funding more and bigger public bureaucracies.

Together, these techniques will enable us to create a responsive, innovate, and entrepreneurial government. They will offer federal workers ways to design and provide services. If we inject market mechanisms into federal agencies as we are cutting red tape, we will create new dynamics--and a new dynamism--throughout the federal government.

Step 1: Giving Customers a Voice - And a Choice

Setting Customer Service Standards

Long lines, busy signals, bad information, and indifferent workers at front counters: These are all-too-common occurrences when customers come in contact with their government. Quite simply, the quality of government service is below what its customers deserve.

Americans want government agencies to get their requests right the first time, to spell their names correctly, to treat them politely. We propose to make these standard operating procedures for the federal government. But we propose to go further: to set a goal of providing customer services *equal to the best in the business.*

Too many agencies have learned to overlook their customers. After all, most of government's customers can't really take their business elsewhere. Veterans who want to use the GI bill, companies that seek environmental permits, or retirees applying for Social Security benefits must deal with public agencies that hold monopolies. And monopolies, public or private, have little sensitivity to customer needs.

> ***Customer Service Standards: USPS***
>
> Already the U.S. Postal Service has developed its own performance goals. We recommend that the USPS display these standards in every Post Office:
>
> ▸ *Your first class mail will be delivered anywhere in the U.S. within three days.*
>
> ▸ *Your local first class mail will be delivered overnight.*
>
> ▸ *You will receive retail service at any post office counter within five minutes.*
>
> ▸ *You can get postal information 24 hours a day by calling a local number.*

So government agencies must do what many of America's best businesses have done: renew their focus on customers. Good service means giving people what they need. To do that, however, one must first find out what they want--a step few federal agencies have taken. In the future, federal agencies will ask their customers what they want, what problems they have, and how the agency can improve its services.

Knowing what customers want, public agencies then must set clear and specific customer-service standards. When Domino's promises a delivered pizza in 30 minutes or $2 off, both the customers and employees understand precisely what that means. Likewise, when the Air Force's Tactical Air Command discarded its thick set of specifications about living quarters for visiting pilots, and adopted a simple standard--equivalent to "A moderately priced hotel, like Armada"--employees understood exactly what it meant.[1]

Several federal agencies that frequently interact with citizens have launched aggressive customer-service initiatives. We endorse the strengthening of these initiatives and their expansion across the federal government.

Customer Service Standards: IRS

We recommend that the IRS set and publish these specific performance goals and standards.

- *If you file a paper return, your refund will be mailed within 40 days.*
- *If you file an electronic return, your electronic deposit will be made within 14 days, or your check will be mailed within 21 days.*
- *Your taxpayer inquiry will be solved with one contact; a repeat problem will be handled by a Problem Resolution Office within 21 days.*
- *When you give us the right information and we've given you the wrong answers, we will cancel all penalties.*
- *With your feedback, by 1995, IRS forms will be so clear that 90 percent of tax returns will be error-free.*

U.S. Postal Service. The U.S. Postal Service, which delivered 166 billion pieces of mail in 1992, has begun improving customer service for a good reason: It has competition. While most people still use the postal service to deliver their first class mail, the use of private delivery services and electronic mail is rising quickly.

So the postal service decided to meet its competition head-on. Using focus groups, the independent agency identified service areas where its customers wanted improvement. It found that people wanted shorter waiting lines at counters, better access to postal information, and better responses to their complaints. Using these goals to measure performance, the agency has set a goal of "100 percent satisfaction" and developed a customer satisfaction index to measure progress toward it.

The agency also is providing incentives for employee performance: In cooperation with two postal unions, managers now use customer satisfaction data to help determine employee bonuses.

Internal Revenue Service (IRS). The IRS, the federal agency most citizens prefer to avoid, might seem the last one likely to develop a customer focus. But it's working hard to do just that.

Four years ago, the IRS got low marks for customer service when GAO discovered that staff gave a wrong answer to one of every three taxpayers who called with a question. Since then, the agency has improved its accuracy rate to 88 percent.[2] And in a switch that signals a basic change in attitude, agency employees now refer to taxpayers as customers.

In IRS pilot projects across the country--such as the Presidential Quality Award Winner in Ogden, Utah--agency employees now have authority to change work processes in order to improve productivity. Front-line workers also have more authority to resolve issues one-on-one with individual taxpayers. The agency is fostering competition among its tax return centers, based on customer service levels and efficiency at handling the 1.7 billion pieces of paper the IRS receives each year. Centers that perform better get higher budgets and workloads. The IRS was among the first government agencies to use 800 numbers and automated voice mail systems to increase customer access to information. Today, the IRS is beginning to survey its customers.

In the end, these IRS efforts could affect all of us, not only as filers of tax returns but as taxpayers. If IRS forms are easier to understand and use, taxpayers might file on time. If the IRS develops an image as a more efficient effective agency, more taxpayers might decide to file in the first place. A mere one percent increase in voluntary compliance would add $7 billion in government revenue each year.

Customer Service Standards: Social Security Administration

The Social Security Administration should establish and publish these specific performance standards for customer service:

- *You will be treated with courtesy every time you contact us.*
- *We will tell you what benefits you qualify for and give you the information you need to use our programs.*
- *We will also tell you about other programs that may help you.*
- *On most days, you will reach us the first time you try on our 800 number; on our busiest days, you may need to try more than once.*

Social Security Administration (SSA).

Every year, 42 million Americans come into contact with the Social Security Administration, which administers old-age pensions, survivors' and disability insurance, Supplemental Security Income (SSI), and the Black Lung Program. The agency's 1,300 field offices receive 60 million calls on their toll-free lines. As the nation's population ages, the agency faces an ever-increasing workload. A recent Inspector General's report showed that customer satisfaction had fallen four years in a row due to longer waiting times in offices and increasing problems in reaching someone on the phone.[3]

Fortunately, the Social Security Administration is strengthening its customer orientation. When 13,000 SSI checks were lost last year, for instance, Michigan Social Security offices stayed open on Saturday to issue emergency checks for needy recipients; that day, workers from around the country flew to the Chicago office to reissue and mail the rest of the checks.

Recently, the agency adopted seven service delivery goals, including such specific objectives as issuing Social Security numbers orally within 24 hours of an application. We believe that by choosing and publicizing a few specific objectives, the agency would increase customer feedback and show the public that it's serious about customer service.

Recommendation: ***The President should order all federal agencies that deliver services to the public to create customer service programs that identify and survey customers. The Executive Order should establish as an overall standard for quality in services to the public: Customer service equal to the best in business.***

The Executive Order would lay out principles to govern the provision of customer services. For example, organizations should:

- Survey their customers to find out what kind and quality of services they want;
- Post standards and results measured against them;
- Provide choices in both source of service and delivery means;
- Make information, services and complaint systems easily accessible;
- Provide redress for poor services;
- Handle inquiries and deliver services with courtesy; and
- Provide pleasant surroundings for customers.

The order would direct all federal agencies that deal with the public to:

- Immediately identify who their customers are;
- Survey their customers on services desired and customer satisfaction;
- Survey front-line employees on barriers to matching the best in business;
- In six months, report results on these three steps to the proposed President's Management Council.
- Develop and publish a customer service plan, including an initial set of customer service standards--within one year

The order would address the need to train front line employees in customer service skills. It would also ask Cabinet secretaries to use improvement in customer satisfaction as a primary criterion in judging the performance of agency managers.

Recommendation: ***The Office of Management and Budget should delegate its survey approval authority under the Paperwork Reduction Act of 1980 to departments and agencies that pledge to comply with the act.***

The public's input is crucial to improving customer service. Under current law, however, the Office of Management and Budget must approve all agency requests to solicit information from the public. This rule was developed to minimize the number of onerous paperwork burdens the federal government imposes on businesses and citizens. But it also minimizes the number of times federal agencies ask customers about their needs. It often slows agencies down so much that they abandon the idea of doing a survey.

For many agencies, customer surveys are the single most useful way to measure performance. If OMB has to approve every request for a customer survey, however, neither the Executive Order described above nor the Government Performance and Results Act will work. Citizens do not like to be forced to fill out forms by their government. But most Americans would be pleased to receive a *voluntary* survey asking how their post office or social security office could improve its customer service.

The solution is to delegate approval of customer surveys to the departments and agencies, and ensure that they create rapid approval processes so bottlenecks don't appear at lower levels.

Customer surveys may cost money, but it is money well spent. Customer-driven programs rarely cost more than others; indeed, productivity gains in past federal experiments have more than offset cost increases. At the Ogden Service Center, the IRS office's new approach helped workers process 5 percent more tax returns. At the Forest

Service, output increased by more than 15 percent--without cost increases. When organizations shift their focus to customers, they act like Avis--they try harder.

A Customer-Driven Employment and Training System

"The man who prepares well for a trade," Thomas Jefferson wrote 200 years ago, "shall never want for employment." That statement was never truer than today. Our nation's economic future depends on the quality of its workforce. Our individual futures, too, depend on whether we have marketable, flexible skills with which to adapt to the changing demands of new technologies. In a country where the average worker changes jobs seven times in a lifetime, those skills are more than desirable; they are crucial.

Our government invests heavily in education and training. Together, 14 separate government departments and agencies invest $24 billion a year, through 150 employment and training programs.[4] But we do not invest this money well.

What's wrong? First, our system is organized for the convenience of those who deliver services, not those who use them. Second, the system lacks competition and incentives for improvement.

"The United States has a worldwide reputation for giving its youth extensive opportunities to attend college," the General Accounting Office noted recently. "Its preparation of non-college bound youth for employment, however, is inadequate." Unlike our competitors, GAO said, we have no national policy to systematically prepare non-college educated youth for jobs.

Our system is badly fragmented. Each service--from job referral to retraining--is designed for different people, with different rules, regulations, and reporting requirements. Bewildered, often dispirited, job seekers must trudge from office to office, trying to fit themselves into a program. When they find a program, they may find that they aren't eligible, that it's all filled up, or that the classroom is across town.

Recommendation: ***With the Labor Department as lead agency, the federal government should create competitive, one-stop, career-development centers.***[5]

American workers deserve a better deal. Nowhere on the government reinvention front is action more urgently needed, or are the potential rewards greater. We envision a new workforce development system, focused on the needs of workers and employees. We will organize it around the worker, then provide that worker with good information about the performance different providers and plenty of choices. If we do this, career centers and training providers will have to compete for their customers' business, based on the quality of their services.

Specifically, we propose one-stop career management centers across the country, open to all Americans--regardless of race, income, employment experience, or skills. They would offer skills assessment, information on jobs, access to education and training--everything people need to make career decisions. The centers would be linked to all federal, state, and local workforce development programs, and to many private ones. Core services would be offered free. Other services, from aptitude testing to career counseling and workshops, would be offered on a fee-for-service basis.

These centers will help their customers get access to funds from any of the 150 programs for which they qualify. To make this possible, the federal government will eliminate or waive many rules and regulations that keep our numerous workforce development programs separate. The centers also will generate their own revenues, including fees collected from employers and employees.

Any organization, public or private, will be able to bid to operate one or more one-stop career centers. The process will be competitive with contracts renewed only if centers meet customers' demands. Today, local organizations get most federal funds for labor market services and training almost as a matter of entitlement. They account for the money, but we do not hold them accountable for whether they spend it effectively. We will make funding for these new centers more competitive, opening the bidding to public and private, non-profit and for-profit entities.

We will judge these centers in part by how many people seek help at them--those that attract the most customers, after all, must be doing something right. But we will focus as well on what happens after they've left. Do they enroll in meaningful training programs? Do they find jobs? Do they increase their incomes? Finally, we will give customers--workers and employers--the necessary information to decide the same thing for themselves: Which training program works best for them?

The biggest single barrier to creating an integrated system of one-stop career centers is the fragmented nature of federal funds. The 150 federal employment and training programs have different rules, different reporting requirements, even different fiscal years. To synchronize these--and to break down the walls between categorical programs--we need an interagency team. We recommend that the National Economic Council convene a Workforce Development Council, with members from Labor, Education, Health and Human

Services, OMB, and other agencies with employment and training programs. It should standardize fiscal and administrative procedures, develop a standard set of terms and definitions between programs, develop system-wide performance measures, and improve qualitative evaluation of program performance.

Spanning Agency Frontiers

As our bewildering array of employment and training programs makes all too clear, the organizational chart in Washington does not always make sense. Programs dealing with the same customers are located in a dozen different agencies. And programs housed in the same agency are only tangentially related. The Agriculture Department's programs, for instance, all relate to food. But its customers range from the farmers who grow it to poor children whose families use Food Stamps.

Consequently, government's customers face problems in using its services. We must give them access to what they need, even if their needs span more than one agency. We must make services "seamless."

The traditional solution is to reorganize the organizational chart. But in Washington, such proposals set off monumental turf wars between departments and, in Congress, between committees. After years of struggle, one or two departments are reorganized--or a new department is created--and everyone collapses in exhaustion. Meanwhile the problems keep changing, and the new organizational structure is soon out of date.

In a rapidly changing world, the best solution is not to keep rejiggering the organizational chart; it is to melt the rigid boundaries between organizations. The federal government should organize work in activities dictated by customers and anticipated outcomes, not by bureaucratic turf. It should learn from America's best-run companies, in which employees no longer work in separate, isolated divisions; they work together in project- or product-oriented teams.

To do so, the government must make three changes. It must (1) give federal employees greater decision-making authority, as discussed in Chapter 1, allowing them to operate effectively in cross-cutting ventures; (2) strip federal laws of prohibitions against such cooperation; and (3) order agencies to reconsider their own regulations and tradition-bound thinking. For example, the Forest Service has found that 70 percent of its regulatory barriers against working with other resource management agencies were self-imposed.[6]

Despite these barriers, some noteworthy initiatives are underway. We should vigorously support them. The following examples illustrate the problems we face and the solutions we must create. They represent crucial issues for our nation's future: science and technology, trade, and the family.

Recommendation: ***The President should issue an executive order and propose necessary legislation to modify the Federal Coordinating Council for Science, Engineering and Technology. It should be reconstituted as the National Science and Technology Council and given a broader role in setting science and technology policy.***[7]

The Federal Coordinating Council for Science, Engineering and Technology (FCCSET) is a White House-managed team that sets policy for technology development. With representatives from 12 departments involved in science and technology, it develops projects that span the work of different agencies, such as the high performance computing initiative and biotechnology research. FCCSET fosters valuable coordination and information exchange efforts.

But we must now broaden its role beyond coordination and development of specific projects, into real policy leadership. The FCCSET's six projects account for just 16 percent of Washington's $76 billion research and development budget in **1994**(?). For the executive branch, the responsibility for science and technology policy should rest within a single organization.[8]

Recommendation: ***The President should issue an executive order creating a new, more powerful interagency coordinating body to streamline and rationalize federal export promotion programs and funding.***[9]

Unlike most of our economic competitors, the U.S. has no national export strategy. Our export programs are fragmented among 19 separate organizations--including the Agriculture and Energy Departments and the Small Business Administration.

The U.S. and Foreign Commercial Service, in the Commerce Department's International Trade Administration, is the lead agency for trade promotion overseas. But dozens of other entities--many within Commerce--also have trade promotion roles. The Commerce Department's Inspector General, for instance, recently charged that the International Trade Administration's structure encourages overlap.

Not surprisingly, our export programs provide little benefit to all but our nation's largest businesses. Two percent of businesses account for 80 percent of our exports, Census Bureau figures show.[10] The economic implications are serious; exports are among our most effective job-creating tools--about 20,000 new jobs for every $1 billion in exports. Thousands of small and mid-sized companies make products attractive for overseas markets, but are discouraged by high transaction costs and a lack of information, trade experts say. The U.S. may be the "world's biggest export underachiever."[11]

For the nation to better compete globally, Washington must reallocate its resources to sectors with the greatest potential for growth. The new entity should be given statutory authority to allocate export promotion budgets based on a comprehensive and coordinated strategic plan. It should also have authority to create performance measures and goals for export promotion agencies.

Recommendation: ***The Secretary of Health and Human Services should seek collaborative efforts within HHS and across the government on policies related to the poor, the elderly, the disabled, and others.***

One urgent need for collaboration involves children. To guarantee the well-being of all children, we must ensure every child a decent home, adequate food, good health care, and access to education. We spend more than $60 billion a year on such goals. But we have created 340 separate programs for families and children, administered by 11 different federal agencies and departments.[12]

Thus, a poor child may need to tap several departments--Agriculture for Food Stamps, Housing and Urban Development for rent support, Health and Human Services for health care, and Justice for chasing down dead-beat parents. For each program, the child's parent will have to visit different offices, learn about services, fill out forms to establish eligibility--and wait.

The system is fragmented and illogical. In Texas, where the immunization rate among poor children is about 30 percent, the state Health Department sought permission to have nurses who run the Agriculture Department's (USDA) Women, Infants and Children supplemental food program also give immunizations. USDA said no--unless Texas developed an elaborate cost-allocation plan. Consequently, mothers and children will have to continue visiting more than one agency.[13]

A few years ago <u>Governing</u> magazine described a teenage girl who was pregnant, had a juvenile record, and was on welfare. Between the three problems, she had more than six caseworkers--each from a different agency. As one put it: "The kid has all these people providing services, and everybody's doing their own thing and Tasha's not getting better. We need to have one person who says, 'Now look, let's talk about a plan of action for Tasha.'"[14]

Step 2: Making Service Organizations Compete

It is better to abolish monopolies in all cases than not to do it in any.
Thomas Jefferson

While our federal government has long opposed private monopolies, it has deliberately created public ones. For instance, most federal managers must use monopolies to do their printing, real estate, and support services. Originally, their approach was supposed to offer economies of scale and protect against profiteering and corruption. In an earlier time--of primitive record-keeping, less access to information, and less industrial era retail systems, it may have offered some advantages.

But not today. Economists don't agree on much, but they do concur that monopolies provide poorer service at higher prices than competitive companies. Our public monopolies have brought us higher costs, endless delays, and reduced flexibility.

Monopolies don't suffer the full costs of their inefficiency; with nowhere else to go, customers absorb them. A monopoly's managers don't even know when they are providing poor services or failing to take advantage of new, cost-cutting technologies, because they don't get signals from their customers. In contrast, competitive firms get instant feedback when customers go elsewhere. No wonder the bureaucracy defends the status quo, even when the quo has lost its status.

As for economies of scale, the realities have changed. As Vice President Al Gore told federal procurement specialists last summer, "The philosophy when these procurement systems was set up was that if the government bought in bulk, costs would be lower, and taxpayers would get the savings. But it doesn't work that way."[15]

As Chapter 1 explained, we no longer need to buy in bulk to buy cheaply. The last decade has brought more and more discount stores, selling everything from groceries to office supplies to electronic equipment at a discount. The Vice President heard story after story from federal workers who had found equipment and supplies at discount stores--even local hardware stores--at two-thirds the price of what government paid.

Not all federal operators should be forced to compete. Competition between regulatory agencies is a terrible idea, for example. (Witness the regulation of banks, which can decide to charter with the state or federal government, depending on where they can find the most lenient regulations.) Nor should <u>policy</u> agencies compete. In the development of policy, cooperation between different units of government is essential. Competition creates turf wars, which get in the way of creating rational, customer-sensitive policies and programs. It is in <u>service delivery</u> that competition yields results. It is the one force that gives public agencies <u>no choice</u> but to improve.

The Air Combat Command
Flying High with Incentives and Competition

The military: the most conservative, hierarchical and traditional branch of the government. The bureaucracy least likely to behave like a cutting-edge private company, right? Wrong.

One of Washington's most promising reinvention stories comes from the Air Combat Command. With 175,000 employees at 45 bases across the country, the ACC owns and operates all of the Air Force's combat aircraft. Says its commander, General John Michael Loh, "We manage big, but we operate small."

How? The ACC adopted overall performance standards, called quality performance measures. Each ACC unit decides for itself how to meet them. Loh then provides lots of incentives and a healthy dose of competition.

The most powerful incentive is a chance to do creative work, Loh told the National Performance Review's Reinventing Government Summit in Philadelphia. For instance, the Air Combat Command allows maintenance workers to fix parts that otherwise would have been discarded or returned to the depot for repair --"under the thesis that our people aren't smart enough to repair parts at the local level." The results have been astonishing. Young mechanics are taking parts from B-1s, F-15s and F-16s--some of which cost $30,000 to $40,000--and fixing them for as little as $10 in other parts. The savings are expected to reach $100 million this year. ACC Managers have an incentive, too: because they control their own operating budgets, these savings accrue to their units.

Loh also instilled competition by using benchmarking, which measures performance against the ACC standard and shows commanders exactly how their units compare to others. The ACC also compared its air wings to similar units in the Army, Navy and Marine Corps; units in other Air forces; even the private sector. Before competition the average F-16 refueling took 45 minutes. With competition, teams cut that time to 36 minutes, then 28.

The competition is against a standard, not a fellow ACC unit. "If you meet the standard, you win," says Loh. "There aren't 50 percent winners and 50 percent losers. We keep the improvement up by just doing that--by just measuring. If it doesn't get measured, it doesn't get improved.

The Government Printing Office

Perhaps the oddest--and oldest--federal monopoly is the Government Printing Office.

In 1860, Congress established a Joint Committee on Printing (JPC) to promote efficiency and protect agencies from profiteering and abuse by commercial printers. JCP sets standards for all agency activities--including printing, photocopying, and color and paper quality. When the Naval Academy wants to use parchment paper for graduation certificates, for instance, the JCP must approve.

The JCP also supervises the Government Printing Office, the mandatory source of most government printing--a whopping $1 billion a year. Along with printing federal publications, GPO must approve all privately-contracted government printing jobs. This even includes printing orders under $1,000--of which there were 270,000 in 1992. Simply for processing orders to private companies, GPO charges 6-9 percent in overhead.

'Slick' is not an approved government typeface.

Here's a sad story about the Government Printing Office, 23 signatures and $20,000 of wasted taxpayer money.

Vice President Gore heard it from an employee at the Transportation Department's National Highway Traffic Safety Administration, which promotes highway safety. Hoping to convey safety messages to young drivers, her office tries to make its materials "slick"--to compete with sophisticated advertising aimed at that audience. Sound simple? Read on.

After the agency decides what it wants, it goes through 23 different people at GPO. In the process, it can change substantially. Orders often turn out far different than what NHTSA sought in the first place. But under GPO's policy, she said, agencies must not only pay GPO's 26 percent overhead charge, they must accept any printing order that GPO deems "usable."

"I can cite one example where more than 20 thousand dollars has been spent and we still do not have the product that we originally requested," she said, "because GPO decided on its own that it did not have a 'government' look. We were not attempting to produce a government look. We were trying to produce something that the general public would like to use."

While perhaps appropriate over a century ago, such oversight doesn't work in an age of computers and advanced telecommunications. Desktop publishing has wiped out most gains from economies of scale. In private business, in-house printing flourishes. Small printing companies specialize in strategic market niches. But JCP and GPO have resisted agencies' attempts to create their own printing operations.

Recommendation: ***Congress should eliminate the Government Printing Office's monopoly.***[16]

For all executive branch printing, Congress should end the JCP's role in overseeing GPO contracts with private printing. Congressional oversight and control of executive branch printing may have made sense in the 1860's, when printing was in its infancy, the government was tiny, there was no civil service, and corruption flourished. But it makes no sense today. We want to encourage competition between GPO, private companies, and agencies' in-house publishing operations If GPO can compete, it will win the contracts. If it can't, government will print for less, and the taxpayers will benefit.[17]

The General Services Administration

Among government's more cumbersome bureaucracies is the General Services Administration, which runs a host of federal support services--from acquiring, constructing and managing office space, to brokering office furniture and supplies, running government's car and truck fleets, and managing $188 billion in real estate.

With its monopoly, GSA can pass whatever costs it wants onto tenants and customers. It's not all GSA's fault. Often it is hemmed in by federal budget and personnel rules. Often it rents the cheapest space it can find, then orders federal agencies to occupy it--regardless of location or quality. (Occasionally an agency with enough clout refuses, and GSA ends up paying to rent an empty space. Such are the ways in which monopolies designed to save money instead waste it.) It recently had a chance to renegotiate a lease on 175,000 square feet of office space in Herndon, Virginia from $20 per square foot to less than $18, for instance. Under the deal, GSA not only would have paid less rent, it would have <u>owned</u> the building after the lease expired. But budget rules made it impossible for GSA to revise the lease. So GSA is still paying the higher rate. Needless to say, so are the agency that rents the space and--ultimately--the taxpayers.

GSA admits that many of its customers are unhappy. It has already permitted some agencies to make their own real estate deals. We propose to further open that door.

Recommendation: The government should end GSA's real estate monopoly and make the agency compete for business. GSA and OMB should seek legislation, revise

regulations, and transfer authority to GSA's customers, empowering them to choose among competing real estate management enterprises.[18]

Specifically, we will invite GSA to create one or more property enterprises, with separate budgets. The enterprises would compete with private companies--real estate developers and rental firms--to provide and manage space for federal agencies. Agencies, in turn, could lease general purpose space and procure, at the lowest cost, real property services--acquisition, design, management, and construction. Such competition should lower costs for federal office space.

All other federal agencies with real estate holdings, including the Defense, Veterans, and Interior departments, should adopt similarly competitive approaches.

Franchising

Every federal agency needs "support services"--accounting, property management, payroll processing, program design, and so on. Currently, most managers have little choice about where to get them; they must use what's available in-house. No manager should be confined to an agency monopoly. Nor should agencies provide services in-house unless the services can compete with those of other agencies and private companies.

Over the past decade, a few federal entrepreneurs have created support service "franchises," which offer their expertise to other agencies for a fee. Consider the Treasury Department's Center for Applied Financial Management. A few years ago, Treasury officials realized that many agencies reporting to their central accounting system had problems meeting Treasury's reporting standards. Rather

DIALING FOR DOLLARS....
How Competition Cut the Federal Phone Bill

In the mid 1980s, a long-distance call on the federal system, which the General Services Administration manages, cost 30 to 40 cents a minute, the "special government rate." AT&T's regular commercial customers normally paid 20 cents a minute. The Defense Department, citing GSA's rates, would not use the government-wide system.

Spurred by complaints about high costs and the loss of customers put the government's contract up for bid among long-distance phone companies. It offered 60 percent of the business to the winner, 40 percent to the runner up.

Today, the government pays 8 cents a minute for long-distance calls. More agencies--including the Defense Department--are using the system. And taxpayers are saving a bundle.

accounting system had problems meeting Treasury's reporting standards. Rather than send nasty letters, they decided to offer help.

The Treasury established a consulting business. The Center includes a small group of people who offer training, technical assistance, and even a system for accounting programs so that agencies need not own the software. The Center markets its services aggressively and successfully, competing with accounting and consulting firms for agency business. Its clients include the Small Business Administration and Nuclear Regulatory Commission. Already, the Center's work has reduced the errors in reports submitted to Treasury. Opened two years ago, the Center plans to earn a profit by 1995; if not, Treasury will close it.

Another successful federal experiment began as a pilot project in Seattle. The Cooperative Administration Support Program (CASU) cuts administrative costs by letting agencies with nearby offices share such services as photocopying, physical fitness, office equipment, training, labor and moving, temporary help, mail management, and recycling. In 1992, there were 40 cooperatives across the country, saving the taxpayers more than $25 million.

Recommendation: ***The President should issue an executive order that gives all agencies five years to create a competitive environment for all support services and allows operations to compete for work in other agencies.***[19]

We want to expand the approach pioneered by the Treasury's Center for Applied Financial Management and the CASU program throughout government. Just as in business, competition is the surest way to cut costs and improve customer service.

Truth in Budgeting

If federal organizations are to compete for their customers they must do so on a level playing field. That means they must all include their full costs in the price they charge their customers. Bureaucracies do this, but federal agencies normally hide many of their costs in overhead, which is paid by a central agency. Things like rent, utilities, staff support, and the retirement benefits of employees are assigned to control agencies. In this way, governmental accounting typically understates the true cost of any service by 30 percent.

With a new "full-cost" cost-accounting system, which assigns rent, utilities, staff support, retirement benefits and all other costs to the unit that actually incurs them, we can determine the true costs of what government produces. At that point, we can compare costs across agencies, make agencies compete on a level playing field, and decide whether we are getting what we pay for.

Recommendation: ***By September 30, 1994, the federal government should issue new accounting standards for all federal activities. These standards will provide a method for identifying the true unit cost of all government activities.***[20]

Some government agencies have already moved in this direction. Others have gone even further. The Defense Department is experimenting with what it calls a Unit Cost Budget. It calculates the costs of delivering a unit of service, then budgets for the desired service levels.

The Defense Logistics Agency began this experiment, hoping to ease pressures to contract out its supply depots to private companies. DLA examined the cost of receiving and delivering shipments, then attached a dollar figure to each item received and another to each item delivered. All money was then appropriated according to the number of items shipped or received. Line items disappeared, incentives grew. The more boxes a depot shipped or received, the more money that depot brought in. For the first time, the DLA could calculate its true costs, compare those of various installations, and pinpoint problems. The system, which enables managers to set productivity targets, is now spreading to other military installations.

Competing with the Private Sector

In a time of scarce public resources, we must decide what government should and shouldn't do. We may be perpetuating some functions simply by tradition. A good example is the National Oceanic and Atmospheric Administration.

NOAA, a part of the Commerce Department, maintains a fleet of ships to support its research on oceans and marine life and its nautical charting. But its fleet is reaching the end of its projected life expectancy. And even with the fleet, NOAA has consistently fallen far short of the 5,000 days at sea that it claims to need each year to fulfill its mission. NOAA faces a basic question--whether to undertake a total fleet replacement and modernization plan, estimated to cost more than $1.6 billion in the next 15 years, or charter some privately-owned ships.

Recommendation: ***The federal government should competitively bid the National Oceanic and Atmospheric Administration's operations.***

The experience of the Army Corp of Engineers, which contracts out 30 to 40 percent of its ocean floor charting to private shipping firms, shows that the private sector can and would do this kind of work. Competition among private shipping companies for these services also might reduce costs.

STEP 3: CREATING MARKET DYNAMICS

Not all public activities should be subject to competition, as noted above. In some cases, even service delivery operations are better off as monopolies. In the private sector, we call these utilities and regulate them to protect the consumer. They are run in a business-like fashion, and they respond to the market. (For instance, they have stockholders and boards, and they can borrow on the capital markets.) They simply don't face competition.

Many governments, including our federal government, do something very similar. They create government-owned corporations to undertake specific tasks. The Postal Service is a corporation; the Federal National Mortgage Association is a corporation; the Tennessee Valley Authority is a corporation. [check all these] Such corporations are free from many of the restrictions and red tape facing public agencies, but most of them remain monopolies--or, like the Postal Service, partial monopolies.

At other times governments stimulate the creation of private enterprises, or spin off public enterprises to the private sector. To get the best value for the taxpayer's dollar, the federal governments needs to use these options more often.

Consider the Federal Aviation Administration's Air Traffic Control (ATC) system. Run as a public agency, it is constantly hamstrung by budget, personnel, and procurement restrictions. To ensure the safety of those who fly, the FAA must constantly modernize air traffic control technology. But this has been virtually impossible, because its money comes in annual appropriations. How can the FAA buy a massive, nationwide computer system when it doesn't know what its appropriation for next year or the year beyond will be?

As a result, the 10-year National Airspace Plan, begun in 1981, is now 10 years behind schedule and 125 percent over budget. Federal personnel rules aggravate the problems: the FAA has trouble attracting experienced controllers to high-cost cities. With no recent expansion, the system lacks capacity to handle air travel demands. Airlines lose about $2 billion annually in additional personnel, equipment, and excess fuel costs. Passengers lose an estimated $1 billion in delays.

Yet there are good reasons not to inject competition into the Air Traffic Control system. In Europe, flights are constantly handed off from one country's system to another. Most experts agree that this creates problems: it is both less efficient and, more importantly, less effective. The danger that a flight may fall through the cracks is greater than in a unified system.

For safety and efficiency reasons, we want one seamless Air Traffic Control system from coast to coast. But we want it run in a business-like fashion: able to borrow on the capital markets; able to do long-term financial planning; able to buy equipment it needs when it needs it; and able to hire and fire in reasonable fashion. The solution is a government-owned corporation.

Recommendation: ***The Secretary of Transportation should create a corporation to administer the nation's air traffic control system.***[21]

"There is an overwhelming consensus in the aviation community that the ATC system requires fundamental change if aviation's positive contribution to trade and tourism is to be sustained," the Competitiveness Policy Council stated earlier this year.[22]

We should restructure the ATC into a government-owned corporation, supported by user fees and governed by a board of directors that represents the system's customers. As customer use rose, so would revenues, providing the funds needed to answer rising customer demands and finance new technologies to improve safety. Relieved of its operational role, the FAA would focus on regulating safety.[23] With better service and cheaper air tickets we would all benefit.

Recommendation: ***The government should create a Real Property Asset Management Enterprise, separating GSA's responsibility for setting policy on federally owned real estate from that of providing and managing office space.***[24]

In asset management, too, government could take a few lessons from business. We must begin to manage assets based on their rates of return. We might start with the General Services Administration.

The federal government owns enormous assets--land, buildings, equipment. But it manages them poorly. Like several other agencies, GSA wears two hats: On one hand, it must provide office space to federal agencies. On the other, it serves as manager and trustee of huge real estate holdings for American taxpayers. It cannot do both, at least not well. Should it maximize returns for taxpayers by renting an underutilized building to private firms? Or, as the office space provider, should it hold space for an agency planning to expand its staff down the road?

We propose a Real Property Asset Management Enterprise, whose sole responsibility would be to manage federally-owned real estate to earn the highest rate of return for taxpayers. In other words, it would operate like a private real estate investment trust--under the same rules and held to the same standards.[25] That way, it would always seek the most profitable use of federal property.

Recommendation: ***Congress should authorize HCFA and other federal agencies and departments to use a "third-party liability" collection system when appropriate.***

Debt collection by the federal government is a disaster. Consider the Health and Human Services Department's Health Care Financing Administration (HCFA). The Medicare program that it runs provides health insurance to persons over 65, some disabled persons under 65, and individuals of all ages with end-stage renal disease. The program, which ranks fourth in budget appropriation--behind defense, Social Security, and interest on the national debt, is growing rapidly. Since 1975, beneficiary enrollment has risen from 25 to 35 million, while claim volume has shot up more than four-fold.

Medicare's benefits for secondary payments--those made after primary insurers have paid--are handled by 80 private insurance companies that process and pay Medicare claims and identify and recover erroneous payments.

Contractors have submitted more than $2 billion in claims that other insurers should have paid and failed to collect overpayments to hospitals in excess of $170 million, the General Accounting Office reports. HCFA has collected some overpayments, but still is seeking $122 million.[26]

Insurers face many barriers, and have few incentives, to correct overpayments. The government should use private collection agencies and give them a percentage of the recovered funds. Although the sharing of funds may bother some people, "since these monies are not being effectively collected by the government, the loss is more theoretical than real," according to HHS.

Recommendation: ***The Department of Housing and Urban Development (HUD) should turn over management of its "market rate" rental properties and mortgage loans to the private sector.***[27]

HUD has a growing workload of problem multi-family and foreclosed properties, whose management and disposition are hampered by outdated practices and restrictive rules. More staff will not solve the problems. Rather, HUD needs a new approach.

By using state-of-the-art, public-private partnerships, HUD could give the job of asset management and disposition to skilled business people, freeing its staff from such detailed work. In addition, HUD could better manage and sell its big portfolio of formerly subsidized real estate if it faced fewer restrictions.

STEP 4: EARNING RATHER THAN SPENDING

For too long, the federal government has shied away from raising non-tax revenue by charging for what government does. But government surely produces many goods and services for which consumers would pay. By selling them, we could reap some important benefits.

First, we could better connect government to its customers. Federal agencies could determine how customers value a service--indeed, whether they need it--by offering it for a price. Second, fees could generate badly needed revenues for federal programs to "reinvest" in their missions. Third, fees would more firmly establish the idea that, whenever possible, users should pay for services.

Many agencies, including the Food and Drug Administration, Patent and Trademark Office, and Securities and Exchange Commission, charge user fees. But in most cases, agencies do not keep the fees; they send them to the Treasury. Hence they have little incentive to raise - or even establish - them.

Congress also imposes limits on fees. The National Park Service, for example, cannot charge more than $5 a car or $3 a visitor at all parks except Yellowstone, Grand Teton, and the Grand Canyon, where limits are $10 a vehicle and $5 a visitor.

The Park Service covers only five percent of its operating revenues from user fees. Fees are so low, and so seldom used, that they are virtually a waste of time. Five of every six dollars collected goes simply to pay the salaries of fee collectors. Yet, the Park Service has a backlog of more than $2.6 billion in infrastructure repair and rehabilitation projects for the National Park System. A third of NPS primary paved roads are in poor or failing condition; a tenth of employee housing is obsolete or deteriorated; and 4,700 natural and cultural resource projects are on the waiting list. Meanwhile, demands on the service are rising sharply--from both American and foreign tourists.[28]

Recommendation: ***Congress should pass legislation allowing parks and other federally-owned facilities to set their own fees and keep the revenue to improve their services. The administration should require all agencies to explore how they can cover an increasing share of operating costs from user fees.***[29]

In its accompanying papers, the National Performance Review recommends user fees for many other activities. For example:

▸ The FDA must ensure that 1.5 million food products imported each year meet the same safety and labeling standards as domestic products. The FDA also certifies the safety of exports. Manufacturers do not pay for these inspections--taxpayers do. User fees would save some $80 million a year and strengthen the FDA's enforcement efforts.[30]

▸ Under the Clean Water Act, the Army Corps of Engineers must issue permits for discharges of dredged or filled materials into rivers, lakes and streams. The Corp has processed 15,000 applications, at a cost of $86 million. Yet it has charged only token fees, and collected only $400,000. This amounts to a $12 million annual subsidy for commercial customers, according to the Defense Department estimates. Higher fees would help not only taxpayers but the customers themselves because they could pay for faster processing of applications.[31]

Environmental protection costs far exceed our financial resources. In 1990, Congress passed a law requiring the Environmental Protection Agency to establish user fees for some services. At the time, such fees were expected to generate $39 million in annual revenues. But the legislation did not say how to set fees, which services to choose, or where the funds would go. We suggest that Congress consider the matter again, clarifying those issues and requiring that performance standards be established. If EPA could conduct inspections efficiently and issue permits more swiftly, industry customers might willingly pay for better service. We recommend that the EPA administrator develop a legislative proposal for user fees by April 15, 1994.[32]

STEP 5: INVESTING FOR A RETURN

One of the greatest obstacles to innovation in government is the absence of investment capital. In the federal government, most appropriations last only one year. Anything left over at the end of the year disappears. So it is difficult for organizations to scrape together enough money to make even small investments in training, technology, new work processes, or program innovations.

When managers and their employees are allowed to borrow for long-term investments, through some kind of innovation fund, they suddenly have a real incentive to implement creative new ideas. Hundreds of public organizations across the country are creating incentives for their employees to save money, then use the savings to finance innovation.

The Commerce Department has a Pioneer Fund that gives employees cash grants of up to $50,000 to finance quality and productivity improvement projects. The money can be used for supplies, equipment, or expert services. Some funds have financed projects related to advanced technology, such as the development of public information on CD-ROM. In 1993, the Pioneer Fund gave a Commerce employee $32,000 to create a Geographic Information System to help generate tourism. The system will compile and analyze economic, environmental and cultural data about the nation's various regions, thus helping the department provide information and enticing tourists to the United States.

The Productivity Bank:
Paying Big Interest in Philadelphia

Mayor Ed Rendell says it's not hard to change incentives so that public employees save money.

"We tell a department, 'You go out there and do good work,' " Rendell told the National Performance Review's Reinventing Government Summit in his city. " 'You produce more revenue. You cut waste. And we'll let you keep some of the savings of the increased revenue.' "

Traditionally, the mayor said, "every nickel that they would have saved would have gone right back to the general fund....They would have gotten a pat on the back, but nothing else." Now, city employees save because their departments can keep some of the savings for projects to help them perform better.

When the Department of License and Inspection beefed up collection and enforcement efforts and generated $2.8 million more than expected in 1992, Rendell said, the city let the department keep $1 million of the savings to hire more inspectors and, in turn, exceed the $2.8 million in 1993.

The city also opened a Productivity Bank, from which departments can borrow for investment-type projects--i.e., capital equipment--to produce either savings or enough revenues to repay the loan in five years. To ensure that departments don't apply frivolously, the city subtracts loan payments from annual departmental budgets.

Successes already abound. The Public Property Department repaid a $350,000 loan to buy energy efficient lamps in one year--after saving $700,000 in energy costs.

The IRS and Interior Department have used similar innovation funds.[33] Treasury, Justice, and Transportation operate Working Capital Funds, designed to finance specific innovations such as information technology modernization.[34]

State and local governments use this approach quite often. Many cities have long had some form of innovation fund. In Florida, Governor Lawton Chiles cut departmental budgets by five percent across the board, then gave half back to agencies with plans to use those monies to increase productivity and effectiveness. In the private sector, Texas Instruments has used what it calls "wild hare" grants distributed to internal "intrapreneurs." In addition, some managers can distribute up to $25,000 in "IDEA" grants to develop prototypes.

At the federal level, one important use for such funds would be technology investments, often considered too expensive for agencies' operating budgets--even though such investment saves money in the future. The Agency for International Development, for instance, needs a centralized information management system to coordinate its central office with more than 100 international field offices. Currently, its information systems lack essential data and are not coordinated, according to a recent OMB report. Thus, they provide inconsistent, inaccurate, and incomplete reporting that managers frequently do not trust. We believe that agencies such as AID should have authority to create innovation funds for capital investment loans to reduce future operating costs. Similarly, the Defense Department estimates it could save $69 million in fiscal 19TK with such a fund.[35]

> *"Reinventing government" does not mean creating a host of new programs. It does not mean increasing taxes, or spending more than we already do. Rather, it means changing how programs operate -- the incentives, the flexibility, the forms of accountability. If done right, it means better government -- more responsiveness at less cost -- not bigger government.*
>
> Senator William V. Roth, Jr.
> Congressional Record July 30, 1993

Recommendation: ***The Administration should submit legislation authorizing the creation of a three-tier system of Innovation Funds: small loan funds in each agency; midsize loan funds at the departmental level; and a larger loan fund for the entire government.***[36]

Agency and departmental funds would be capitalized through retained savings from operational appropriations. In addition, OMB should seek appropriations of at least $2 million each for departmental working capital funds, targeted at specific purposes, such as information technology investment. Congress should allow all new and existing working capital funds to invest in joint projects with other agency funds, with state or local governments, or with industry.

The legislation creating a government wide Innovation Capital Fund should be modeled on legislation that crated the Federal National Mortgage Association, a

The legislation creating a government wide Innovation Capital Fund should be modeled on legislation that crated the Federal National Mortgage Association, a government-sponsored corporation. The legislation could authorize seed money of $10 million, and the Innovation Capital Fund could then raise more funds by borrowing in the credit markets or issuing securities.

If managed by market principles, these loan funds should produce measurable improvements in agency efficiency and enormous taxpayers savings. Strict repayment schedules would discourage careless borrowing.

STEP 6: USING MARKET MECHANISMS TO SOLVE PROBLEMS

Government cannot create a "program" for every problem facing the nation. It cannot simply raise taxes and spend more money. We need more than government to solve our problems. We need governance.

Governance means setting priorities, then using the federal government's immense power to steer the private sector. Governance can take many forms: setting regulations, providing financial incentives, or ensuring that consumers have the information they need to drive the market.

When the Roosevelt administration made home ownership a national priority, the government didn't build millions of homes or distribute money so families could buy them. Instead, the Federal Housing Administration helped to create a new kind of mortgage loan: rather than put down 50 percent, buyers could put down just 20 percent; rather than repay mortgages in five years, borrowers could stretch the payments over 30 years. The government also helped to create a secondary market for mortgages, letting even more Americans buy homes.

As we reinvent the federal government, we, too, must rely more on incentives than on new programs.

Occupational Safety and Health Administration

Today, 2,400 inspectors from the Occupational Safety and Health Administration (OSHA) try to ensure the safety and healthy of 93 million workers at 6.2 million work sites.[37] The system doesn't work. There are only enough inspectors to visit even the most hazardous workplace only once every several years. And OSHA has the manpower to follow up on only three percent of its inspections.

Recommendation: ***The Labor secretary should issue regulations to let employers self-certify health and safety standards, and establish a system of sliding incentives to encourage compliance.***[38]

We propose that government assume a more appropriate and effective role: setting standards and imposing penalties on workplaces that don't comply. The Labor Secretary is already authorized to require employers to conduct certified self-inspections. OSHA should give employers two options with which to do so: it could hire a third party, such as a private inspection company; or it could authorize employees, after training and certification, to conduct inspections.

In either case, OSHA would set inspection and reporting standards and conduct random reviews, audits, and inspections, to ensure quality.

Within a year or two of issuing the new regulations, OSHA should establish a sliding scale of incentives designed to encourage workplaces to comply. Work sites with good health, safety, and compliance records would be allowed to report less frequently to OSHA, to undergo fewer audits, and to submit less paperwork. OSHA could also impose higher fines for employers whose health and safety records worsened, or did not improve.

In this way, OSHA could ensure that all work places are regularly inspected, without hiring an army of new federal employees. It would use the same basic technique the federal government uses to force companies to keep honest financial books: setting standards and requiring periodic certification of the books by expert financial auditors. No army of federal auditors descends upon American businesses to audit their books; the government forces them to have the job done themselves. In the same way, no army of OSHA inspectors need descend upon corporate America. The health and safety of American workers could be vastly improved, *without* bankrupting the federal treasury.

Environmental Protection Agency

As governments across the globe have begun to realize their limitations in protecting the environment, they have discovered that market mechanisms--fees on pollution, pollution trading systems, and deposit-rebate systems--can be effective alternatives. But while the idea of "making the polluter pay" is widely accepted in this country, our governments have not widely applied it. Many federal, state, and local regulations rely on an earlier approach to environmental control: stipulating treatment, not outcomes. Their wholesale shift to a new approach would take time.

Recommendation: ***The President and Congress should amend the Clean Water Act to explicitly encourage market-based approaches to reduce water pollution.***[39]

With more federal lawmakers and environmental groups endorsing the idea of market-based incentives to enforce the Clean Water Act, we propose to make the act a model of such enforcement.

We should allow polluters to "trade" pollution rights. One polluter could buy or trade another's rights to discharge into the same body of water. Rather than monitor each polluter, the government would set water quality standards and let the market handle the details. In addition, the government could assess fees based on the amount and nature of wastewater discharges. Fees could be set to reflect the quality, toxicity and other adverse characteristics of pollutants.

Federal Emergency Management Agency

When a natural disaster strikes, the federal government extends assistance to its victims, often at considerable cost. Congress appropriated $3 billion to victims of Hurricanes Andrew and Iniki;[40] its assistance to victims of the Midwest flooding likely will top **$TK** billion.[41]

But our government also steps in after smaller-scale "disasters." In recent years, we have given $800,000 to Vermont for flood damage and $41 million to New York and Pennsylvania after major snowstorms.

Our approach creates few incentives for prevention, preparedness, or even insurance. Federal relief, delivered by the Federal Emergency Management Agency (FEMA), is financed by general tax revenues--or deficits, to be more accurate. Costs to taxpayers are unrelated to their risk of experiencing disasters; those living in areas prone to earthquakes, floods, and other disasters pay no more than those living in safer areas. And because the federal government finances such a large share of relief efforts, states and localities have little incentive to reduce the costs.

The federal government should not--and increasingly cannot--absorb such a large share of costs. States with the highest risk should bear the highest cost.

Recommendation: ***Congress should require that the Federal Emergency Management Agency establish a system of state disaster insurance and disaster loans.***[42]

A system of state disaster insurance would provide an incentive for states to prepare for disasters. States would make annual payments into a "catastrophic fund," with each state's payments based on its (1) potential for disaster, including loss of life and economic and property loss; (2) per-capita income, and (3) population. States could decide for themselves how to finance those payments (some could create a disaster tax, as California has done). The federal government would act as an insurance company for states by investing their premiums.

Each state would have a deductible, and would pay the full clean-up amount up to that amount. The insurance would cover all costs above that amount. The new insurance system would only cover costs not absorbed by other insurance, such as flood or crop insurance.

Because all states would contribute to the insurance fund, most would seek hold down costs by encouraging one another not to reach into it unless absolutely necessary. And because states would pay for minor disasters by themselves, they would be more likely to prepare for them. When a major disaster hit, however, its financial impact would be spread out over many years, through the payment of annual premiums.

In addition to insurance, FEMA should establish a disaster loan program, so states could borrow to pay for disaster relief under the amount of their deductible. As with insurance, this should mitigate the immediate impact of disasters, but still encourage states to invest in disaster prevention and preparation. The two initiatives should save the federal government several billion dollars a year.

Public Housing

We spend enormous sums on public housing. But we create few incentives for better management. In local housing agencies, managers are hamstrung by endless federal regulations that offer little flexibility. Any savings they generate are simply returned to the government.

Tenants enjoy even less flexibility. With housing subsidies attached to buildings, not people, the program's clients have no choice where to live. Thus, they enjoy no leverage over the managers.

Recommendation: ***Congress should give the Department of Housing and Urban Development authority to create demonstration projects that allot public housing's new construction and modernization funds to models that seek to provide flexibility and market incentives for managers. These models, in turn, should give market powers and***

freedom of choice to tenants, including the power to move outside their units with housing subsidies.[43]

We propose a two-part experiment. First, we suggest that the Secretary of Housing and Urban Development let public housing authorities, through not-for-profit subsidiaries, compete for new construction and rehabilitation funds that they would then use to create market-rate housing. Managers would use the money to select appropriate buildings and manage them free of most regulations, provided they met performance standards set by HUD. They would rent to a mix of subsidized and market-rate tenants, ending the isolation of low-income housing clients and providing an income stream for the managers. The managers would use some of the "profits" from market-rate tenants to improve services in the buildings or create more housing.

Second, as another incentive for managers to perform better, we suggest that the subsidized tenants be allowed to take their subsidies with them if they wished to move. With subsidies attached to clients, not buildings, managers would have to compete to keep tenants and federal funding.

Chapter 3

Empowering Employees to Manage for Results

Take two managers and give them the same number of laborers and let these laborers be equal in all respects. Let both managers rise equally early, go equally late to rest, be equally active, sober, and industrious, and yet, in the course of the year, one of them, without pushing the hands that are under him more than the other, shall have performed infinitely more work.
George Washington

When Nature has work to be done, she creates a genius to do it.
Ralph Waldo Emerson

Two hundred years ago, George Washington knew that our federal government must hire and promote productive managers--and take authority away from unproductive ones. A hundred years ago, Emerson observed that we all share a common genius, ignited simply by the work at hand. These American originals defined the basic ingredients of a healthy, productive work environment: managers who innovate and motivate, and workers free to improvise and make decisions where the rubber meets the road.

Today, our federal government's executive branch includes 14 cabinet departments and 135 [?] agencies, boards and commissions, each reporting to the president. These entities employ three million civilians, spend $1.5 trillion a year, and, directly or indirectly, account for a third of our national economy.

Their tasks are massive and difficult. As the National Academy of Public Administration (NAPA) wrote not long ago, "The federal government now manages... some of the most important and complex enterprises in the world."[1]

Any such undertaking needs good workers, managers, and management systems. But despite our solid core of capable employees, we lack effective management systems. The General Accounting Office put it this way: our government lacks the "processes and systems fundamental to a well-run organization. Most agencies have not created a vision of their futures, most lack good systems to collect and use financial information or to gauge operational success and accountability, and many people do not have the skills to accomplish their missions."

This situation, GAO concluded in a burst of understatement, was "not good."[2]

Admittedly, "management" is a fuzzy concept, hard to recognize or even define. Nevertheless, poor management has real consequences: Money is wasted. Programs don't work. People aren't helped.

And inside government, bad management stifles the morale of workers on the ground--those closest to the customer. The system kills their initiative. Vice President Gore, responding to the concerns of Transportation Department employees, put it well:

> *One of the problems with a centralized bureaucracy is that people get placed in these rigid categories, regulations bind them, procedures bind them, the organizational chart binds them to the old ways of the past...The message over time to...employees becomes: **Don't** try to do something new. **Don't** try to change established procedures. **Don't** try to adapt to the new circumstances your office or agency confronts. Because you're going to get in trouble if you try to do things differently."*[3]

As we have argued, cutting red tape, measuring results, empowering customers, and creating competition incentives will create an environment that rewards success. Now, we must encourage those within government to change their ways.

We must create a culture of public entrepreneurship. We must support those who innovate.

> *Our long-term goal is to change the very culture of the federal government...A government that puts people first, puts it employees first, too. It empowers them, freeing them from mind-numbing rules and regulations. It delegates authority and responsibility. And it provides for them a clear sense of mission.*
>
> *Vice President Al Gore*
> *May 24, 1993*

Changing the culture of the federal workplace is a lot harder than changing its rules and regulations. A culture of powerlessness and complacency pervades the bureaucracy. "Changing government is a bit like moving the town cemetery," observed a veteran of many government reform initiatives. "It's much harder to deal with the feelings it arouses than with the relocation itself."

So how do we change culture? The answer is as broad as the system that holds us hostage. Part of it, outlined in Chapter 1, lies in liberating agencies to do their jobs and focusing every employee on results. Part of it, outlined in Chapter 2, lies in creating new incentives through the use of competition, customer choice, and other market dynamics. And part of it lies in shifting the focus of control: liberating people to use their judgment and supporting them with the tools and training they need.

First, we must give decision-making power to those who do the work, pruning layers upon layers of managerial deadwood. We must dismantle the Berlin Wall that separates management from work.

Second, we must give these newly-empowered workers and managers the tools they need for their jobs--good information, relevant training, and new systems and technical resources. Effective private firms do all that; so should the federal government.

Third, [TK -- management information systems]

Fourth, we must offer top-down support for bottom-up management. As we know, people who hold power rarely surrender it without a fight. Large private corporations that have answered the call for quality have succeeded only with the full backing of the CEO and top management. We will need the same.

[Fifth, TK]

Step 1: Decentralize Decision-Making Power

To anyone in a large organization--public or private--"headquarters" can be a dreaded word. It's where cumbersome rules and regulations are created, good ideas buried. Headquarters never understands problems, never listens to employees. When the federal Office of Personnel Management surveyed federal employees, fewer than half expressed any confidence in supervisors two layers above them--or any confidence in their organization's overall structure.[4]

Yet everyone knows the truth: The best ideas and information rarely rise from the top. In fact, management is often happily unaware of what occurs at the front desk or in the field. It's people who work closest to problems who know most about solving them. As one federal employee told Vice President Gore, "If we can't tell what we're doing right and wrong, who better can?"[5]

The Social Security Administration's Atlanta field office tells a story about federal workers who are empowered to fulfill their mission--helping citizens get their benefits as soon as possible. Since 1990, disability benefit claims have risen 40 percent, keeping folks in the Atlanta office busy. So they created a reinvention team to help them discover how to do their jobs better. They realized that by asking customers to bring along medical records when filing claims, workers would save the time they spent contacting doctors and requesting the records. That idea alone saves 60 days on the average claim--and saved taxpayers nearly a million dollars **last year** (?). The same workers also found a better, cheaper way to process disability claims in cases reviewed by administrative judges. Instead of asking judges to send them written decisions, they created a system for judges to send decisions electronically. It's quicker, and it saves paperwork, too.[6]

Now, here's the other side of the coin. The Denver Post recently uncovered this bureaucracy-shaking news: It takes 16 federal employees to change a light bulb:

> *An internal memo written by a manager at the U.S. Department of Energy {Rocky Flats} plant recommended a new safety procedure for "the replacement of a light bulb in a criticality beacon." The beacon, similar to the revolving red lamp atop a police car, warns workers of nuclear accidents. The memo said that the job should take at least 16 people over 60 hours to replace the light. It added that the same job used to take 12 workers 4.15 hours.*
>
> *The memo called for a planner to meet with six others at a work-control meeting; talk with other workers who have done the job before; meet again; get signatures from five people at that work-control meeting; get the project plans approved by separate officials overseeing safety, logistics, waste management and plant scheduling; wait for a monthly criticality-beacon test; direct electricians to replace the bulb; and then test and verify the repair.*[7]

This example drives the point home: Too many rules have created too many layers of supervisors and controllers who have little to do but "manage" simple tasks into complex processes. They waste

Workers Rise to the Challenge: 1

Ranchers, allowed to graze their cattle in Missouri's Mark Twain National Forest, regularly move their herds to avoid over-grazing any plot of land. Until recently, ranchers had to apply at the local Forest Service Office for permits to move the cattle. Typically, the local office sent them on to the regional office for approval, which, in some cases, sent them on to the national office in Washington. Approval could take up to 60 days--long enough, in a dry season, to hurt the forest, leave the cows hungry and annoy the rancher.

Thanks to an employee suggestion, the local staffer now can settle the details of moving the herd one-on-one with the rancher. If the rancher comes in by 10 AM, the cattle can be on the move by noon. Ranchers are happier, cattle are fatter, meadows are greener--all because local workers now make decisions well within their judgment.

workers' time and squander the taxpayers' money.

Put simply, all federal agencies should delegate, decentralize, and empower. If they do, will employees rise to the task?

We believe they will. After all, people don't take up federal work for the money. Our interviews with hundreds of bureaucrats support what ~~survey~~ after survey of public service workers have found: People want challenging jobs.[8] Yet, that's exactly what our rule-bound and over-managed system denies them. When we do challenge federal workers, they always rise to the occasion.

Reinventing government will mean reducing the power of headquarters vis-a-vis field operations. It will mean increasing the authority and ability of front-line and front-office workers to use their creative judgment as they offer service to customers and solve problems. The driving force behind this change will be what business now calls the <u>quality imperative</u>: To give the customer better value, we must do everything smarter, better, faster, cheaper.

America's best-run businesses are realizing enormous cost savings and improving the quality of their products by pushing decisions down as far as possible, eliminating unnecessary management layers. The federal government should adopt this decentralized approach as its new standard operating procedure. It can unearth hundreds of good ideas, eliminate employee frustration, and raise the morale and productivity of an entire organization. As one worker in a quality management effort in the Coast Guard's National Pollution Fund Center put it: "The atmosphere, the morale is very high. People are willing to do their work and they want to do the work just because they were part of the decision process."[9]

Recommendation: ***In his performance agreements with Cabinet secretaries and agency CEOs, the President should set a goal of increasing the current 1:7 ratio of federal manager-to-workers to 1:15 over the next five years.***

Our excessive control of government workers through rules and regulations has cost us: we have created layers of middle managers whose only job is is ensure that nobody violates any. As our reinvented government begins to liberate agencies from over-regulation, we no longer will need 285,000 separate supervisory staff and 585,000 "systems control" staff to support them.[10] Instead, we will encourage more of our 3 million federal employees to become managers of their own work--and more managers to work directly with customers. Productivity will grow even as the number of federal workers shrinks.

Some employees may view such pruning as threatening--to their jobs or their chances of promotion. But we do not seek to throw people out of work. We seek to make jobs meaningful and challenging. Removing a layer of oversight that adds no value to customers does more than save money; it demonstrates trust in our workers. It offers employees in dead-end or deadly-dull jobs a chance to use all of their abilities. It makes the federal government a better place to work--which will in turn make federal workers more productive.

Recommendation: ***While improving service quality, Cabinet secretaries and agency CEOs should reduce excess work controls, decrease management layers, and improve internal procedures. The goal: cut 20 percent from operating costs over five years.***

To get our government to its ideal size--that is, employing the right number of people and resources for the job at hand--we should concentrate not on cutting a specified number of people, but on improving service and reducing operating costs.

Workers Rise to the Challenge: 2

The people in Building 472 at the Navy's North Island Air Depot make parts for the Blue Angels and other F/A-18 fighter units. Until a year ago, they weren't making them very fast, or very well, or very cheaply. Although their buzzword was total quality management, mid-level managers clung to their old ways. Losing money, the operation was threatened by the next base closure package.

So an enterprising captain created a ten-person team, cut its members loose from their bosses and rules, and told them to save the 250 jobs in Building 472. They did. Today, the whole manufacturing operation is revamped, New tools have installed. Order-to-ship-time has been cut by 42 percent, saving the Navy $1.7 million. Customers are shifting from private contractors to building 472. USA Today awarded the unit its annual quality cup.

*The North Island Air Depot is **not** on the base closure list.*

To help agencies reach this goal, OMB will work with departments to develop baseline budget indicators. Operating cost ceilings will replace FTE (full-time employee) ceilings as the measure of control. Departments will submit plans that identify their projected multi-year cost reductions. The Executive Office of the President will fully support Secretaries with regulatory relief, executive orders and legislative remedies.

We won't let agencies cut service unless, and until, they have cut all unneeded operating costs in headquarters or field offices. If agencies cut the number of mid-level managers at headquarters, they should look first at supervisors, then at personnel, procurement and finance officers. Agencies should consider the last three only if they are implementing our recommendations on reforming the personnel, procurement, and finance systems. Otherwise, we could be left with the worst of both worlds: our cumbersome systems would remain, but we would no longer have enough specialists to cope with them.

The Department of Housing and Urban Development (HUD) has already developed a plan. Over the next five it will convert from a three-tiered, 80-office field structure to a two-level structure with fewer offices. HUD will free its five assistant secretaries to organize their own functions in the field. It will transfer many of its application and loan processing functions to the private sector and build more partnerships with state government. While letting staff attrition largely dictate staff reductions --in fact, HUD promises no layoffs--HUD plans to retrain and redeploy people into more interesting jobs, with better career ladders and better access to managers. HUD believes its restructuring effort will improve customer service while saving $54.5 million in personnel and overhead costs.[11]

As private companies have found, the key to improving service while redeploying staff and resources is thinking about the organization's staffing and operating needs from the perspective of customer needs. What does each person's task add in value to the customer? The Postal Service has developed a single criteria: it asks, "Do they touch the mail?" Where possible, other agencies should develop similar criteria.

Canada produced a good example of customer-driven management just last year. The provincial government of British Columbia decided to start with an agency most people dread--the Department of Motor Vehicles. It gave a group of DMV employees a simple charge: Reduce waiting times to 15 minutes--however you can. Six months later, employees had surpassed the goal; average waits were down to eight minutes.

Pioneering federal offices in the U.S. have made similar strides. Some use Quality Management techniques, others choose process reengineering, while others try to copy high performance organizations. Others devise their own recipes.

The IRS's Hartford District office slashed the time required to process a form on "currently non-collectible" taxes from 14.6 days to 1.4 days. Eventually, it cut overall case processing time from 40 to 21.6 weeks. Then, it replaced time consuming case reviews with an automated case management system, and began using the manager's time to upgrade employees' skills. Delinquent tax dollars collected rose 22 percent. The office chose not to fill vacant management positions, investing part of its staff savings in new technology to boost productivity further.[12]

Other agencies are cutting management overhead by creating self-managed teams--

small groups of employees who have design and production control over their products or services. At the Warner Robbins Air Force Base, the 1926th Communications-Computer Systems Group cut its supervisory staff in half by organizing into teams.[13] An Agriculture Department personnel office that converted to self-managed work teams beefed up customer satisfaction and increased its span of control from 1:7 to 1:23. At the Defense Logistics Agency, self-managing teams in the Defense Distribution Region Central eliminated an entire level of management, saving more than $2.5 million a year.[14]

> *The federal Education Department launched itself with the motto:* ***Learning never ends.*** *It is time for federal government to act on this adage.*

Step 2: Give federal workers the tools they need to do their jobs.

Americans today demand a more responsive, more humane government that costs less. Their expectations are neither irrational nor whimsical. Over the past twenty years, the whole world of how we do things, make things, even contact one another, has changed around us. Businesses have no guarantees, no captive markets. To compete, they must make things and deliver service better and faster, and get their message out sooner. No one benefits more than customers. It's no wonder these same people now turn to government and ask, "Why can't you do things better too?"

Government has access to the same tools that have helped business. Its just slower to acquire and use them. We must change that. We must give employees the tools they need to get results--then make sure they use them.

Employee Training

After two decades of reinventing management, business has made a vital discovery: Empowered people need new skills--to reach group decisions, use new computer software, interpret financial and statistical information, cooperate with and manage other people, and adapt. Indeed, business talks about a new breed of "knowledge worker"--people who understand that, throughout their careers, their most important task is to continue learning and applying new knowledge to the challenge at hand. Knowledgeable workers are our most important fuel for progress. They are, quite simply, the currency of 21st Century commerce.

Business teaches us that ongoing training for every worker is essential for government to work well. Not surprisingly, the federal government under-spends on training and education, just as it does on most other productivity-enhancing investments. In 1989, Paul Volcker's national Commission on Public Service estimated that while leading private firms spend three to five percent of their budgets on training, retraining and upgrading employee skills, the federal government doesn't even spend one percent.[15]

And the little we do spend is not always allocated wisely. A four-day training seminar at an attractive resort is a quick, end-of-the-year way to spend surplus travel funds. It is not, however, always what the agency needs. The Volcker Commission concluded:

> *Federal training is suffering from an identity crisis. Agencies are not sure what they should train for (short term or long term), who should get the lion's share of resources (entry level or senior level), and whether mid-career education is of value. Career paths are poorly designed, executive succession is accidental and unplanned, and real-time training for pressured management is virtually non-existent. At both the career and presidential level, training is all-too-often ad hoc and self-initiated.*[16]

Perhaps most striking is the paucity of career training for people at the lower ends. These valued employees often have the most tenure in an office. They see and know everything. Frequently, they are indispensable, because only they know how the system works--and how to work the system. Unfortunately, their abilities are rarely rewarded, despite their desire to advance.

One staffer in the Justice Department's Civil Division alerted Vice President Gore to her quandary:

> *I'm watching the role of our legal secretaries change. Less and less of the typical secretarial duties are being performed, simply because the attorneys do a lot of their own drafting of documents...However, for a secretary to start to move into a Legal Assistant position...or into a para-legal role, is frowned upon...As far as training goes it's impossible...That prevents a lot of people from...moving into new jobs that are going to be of more benefit to the department...We've lost a good number of secretaries who have moved elsewhere, because they cannot go any further here.*[17]

Employees at the top rung, too, must keep learning. One member of the Senior Executive Service (SES) at the National Science Foundation (NSF) earned kudos five years ago for computerizing the financial transactions involved in NSF's extensive grants process. But this early innovator grew wedded to his particular software and hardware solution. He refused to examine or proceed to new technology. As the software base changed around him, his blind resistance cost the agency hundreds of thousands of dollars each year for specialized programming to keep his system alive--even though three or four personal computers could have done the entire job for a few thousand dollars. Both users and administrators need continual training in areas where American industry innovates incessantly.[18]

Recommendation: ***The Office of Personnel Management should draft legislation to broaden the scope of training in the federal government.***

The 1958 Government Employees Training Act (GETA), which authorizes agencies to manage and determine their training needs, defines training as a tool for "increasing economy and efficiency in government." The rules behind this wording severely limit how agencies can use training from outside government. Even worse, they require that any training be related to an employee's official duties--thus insuring that our Justice Department secretary does not become a para-legal. They keep federal employees single-skilled in a multi-skilled world.

By next January, the Office of Personnel Management (OPM) should draft legislation to amend GETA on three fronts: (1) redefine the objective of federal training as the "improvement of individual and organizational performance," (2) relate the use of training to achieving an agency's mission and performance goals, not to a worker's official duties, and (3) end the distinction between government and non-government training, giving government employees access to the best learning opportunities available.

Recommendation: ***Congress should grant agencies the flexibility to finance critical training.***[19]

Leading corporations view training as a strategic resource, an <u>investment</u>. Federal bureaucrats tend to view it as a cost. So in government, worker training isn't even included in most budget estimates for new systems or programs. Although training may be the best and least costly way to improve worker performance, bureaucrats view it as a "quick fix," unworthy of any planning effort.

Perceptions are changing, however. Today's management literature is full of talk about the value of on-the-job-training, computer-based instruction, expert systems, and mentors. Since 1992, OPM has been steering agencies to more comprehensive training initiatives.

We recommend that agencies be granted one quarter of the savings they realize from decentralizing staff and reducing operating costs to invest in worker training, performance measurement, and benchmarking. They also should be allowed to borrow from innovation funds--described in Chapter Two--for training. After all, new workplace innovations, like advanced software, won't transform employee productivity unless those employees are trained to use it.

Further complicating an agency's ability to train workers for quality are directives from its budget office, OMB or Congress to cut its line item for employee training. Such reductions can deny employees the learning they need to be fully productive. Agencies should be free to adjust their own operating budgets and staffing in order to fully fund worker learning.

Recommendation: ***The executive branch should make strategic and quality management "basic training" for all employees.***

Agencies must become "learning organizations," just as successful companies have. The changes in personnel systems that we outlined in Chapter 1 will give us, at last, a system that enables us to reward good workers. We will be able to judge performance by measuring results. People will have the flexibility to try new ways of doing their jobs. And agencies will have the authority to promote the people who do well.

In the face of wholesale change, however, people can decide not to let it work. Unless we train everyone in the new skills they need--and help them understand the new roles they are expected to play--they can, through passive or active resistance, subvert the implementation of change.

We need a system to provide people with the support and skills they need to fulfill their potential. As agencies reorganize around quality and customers, staff may need training for expanded job responsibilities. Line staff may need to learn budget and procurement processes. Managers may need help in becoming coaches rather than commanders.

But first and foremost, everyone needs to learn what working and managing for quality is all about. The Federal Quality Institute (FQI), will need to develop and implement a learning plan to foster the understanding and use of strategic and quality management principles throughout the executive branch. FQI should send a clear message about our commitment by involving agency leaders in the design and delivery of quality training in their agencies. (See Step 3 for more on FQI.)

Recommendation: ***The federal government should upgrade information technology***

training for all employees.

Every year, more and more federal workers must use computer-based information technology in their jobs. The trend will only quicken. Pen and paper exercises keep moving to the screen. Lateral files now form database records. Video and computer-based courses make learning possible anytime, anywhere. Money no longer changes hands; it's transmitted digitally. People not only talk, they "message." A meeting of the minds can take place without the bodies present.

Other chapters discuss how all this technology can alter what we do and how well we do it. Here, we want to stress that much of the federal work force lacks the training and background to use advanced information technologies. Compared to the private sector, the federal government invests few dollars and scant time in technology training.[20] The longer we wait, the further behind we fall.

Over the long run this costs the taxpayer dearly. We do things the old way, not the new, cheaper, more efficient way. Or we start doing things the new way, but we don't go far enough: we give computers to our workers, but not the training to use them. Or we invest heavily in massive new systems, and our people can't make them work.

Training should begin with top non-technical managers, to help them focus on uses, management, planning and acquisition of state-of-the-art information technology. The New York City Department of Personnel, already in the technology training mix, has identified ten topics for monthly half-day sessions: strategic planning, reengineering, implementing systems, electronic mail, video conferencing, voice-enhanced technologies, geographic information systems, database management, imaging, and multi-agency complaints and inspection systems. Our effort should aim to help every senior manager earn a certificate that signifies their level of technology competency.

To help reach the rest of our workers, we should, at the minimum, include worker training and support in every government contract for a technology purchase. If agencies work together, they can cut such training costs dramatically. When Texas contracted with four state-wide technology training firms to train all state employees, it cut the price to $60-$110 a day per worker for a wide range of skills. As a larger customer, the federal government might land an even better bargain.

Recommendation: ***The executive branch should orient and train political appointees.***

Distrust pervades the federal employee culture, especially at the top. In the executive branch, the top consists of appointed executives that each new administration brings in to run things. Initial tensions between political appointees and career civil servants typically stand in the way of progress. In their disdain for their new bosses, career workers often have a point: some appointees lack sufficient grounding in their agencies' big issues, while others lack up-to-date knowledge on technology.

No one benefits from this tension. The White House Office of Presidential Personnel, OPM and each agency should develop and conduct orientation and follow-on training for all political appointees. Orientation can help acclimate appointees on the big issues (government structure, presidential priorities, ethics, Congressional relations, the media, the regulatory process) and the small (how the phones work). Agency training can alert them to pending controversies and opportunities, allowing them to plan their own learning agenda. Many appointees also would benefit from management training. Whenever possible, orientation and training efforts should mix appointees with career executives, thus having relationships that will help them lead and manage together.

Step 3: Improving management information systems

Management isn't about guessing, it's about knowing. Those in positions of responsibility must have the information they need to make good decisions. Good managers have the right information at their fingertips. Bad managers don't.

Good information means good information systems. The marriage between the microprocessor and telephone has made it much easier to compile and process information instantly. That's why businesses can eliminate rows of human number crunchers and give employers access to more accurate data. Nowhere is this more important than on the bottom line. To foster an entrepreneurial management culture, we must give federal managers the same type of financial information that private managers use.

Sheer size alone would make the federal government difficult to manage, even under the best of conditions. Unfortunately, federal bureaucrats don't work under the best of conditions. Indeed, when it comes to financial information, many are flying blind. It's not for lack of staffing: some 120,000 workers--almost five percent of non-postal civilian employees perform budget and financial management tasks.[21]

Many of these people spend their time on labor-intensive work, entering and re-entering data, reconciling discrepancies, auditing, and explaining obscure intricacies of the "process" to colleagues and auditors. When OMB surveyed agency financial reporting systems last year, it found that a third were more than a decade old, and only six percent were less than two years old. A third failed to meet Treasury's and OMB's reporting standards. Two-fifths did not meet in-house reporting standards--meaning they did not provide the information managers wanted. And more than half simply lacked the computer power to process the data fed in.[22]

We all know the potential costs of lagging systems: the $500 billion savings and loan bail out,[23] $22 billion in uncollected IRS debt, $3.6 billion in student loan defaults, and so on. Today, 60 percent of major agencies' financial systems would be considered "high risk" in the private financial world.[24] If that share of our nation's banks were so labeled, we would face an international crisis.[25]

Fortunately, the process of updating our financial systems has begun. In 1990, Congress passed the Chief Financial Officers Act.[26] It designated a new OMB deputy director as the federal government's chief financial officer. He runs a new Office of Federal Financial Management, charged with establishing financial management policies across the government, setting government auditing standards, and monitoring agency audits. The act also created Chief Financial Officers (CFOs) in 23 agencies. To assist them, the Treasury Department created the Federal Credit Management Training Institute, which prepares people for financial management positions.

But we need to do more. We still separate budgetary information--whether agencies are following their spending targets quarter by quarter--from overall financial information, such as the rates of return on agency assets, or data on accounts payable and receivable.

Business doesn't separate budget and financial data. Many of our top corporations--from GE Medical Systems to Hewlett Packard--have introduced activity-based accounting to operations managers. This innovation tells managers exactly what each of their activities is generating in revenue and at what cost. In corporations like these, chief financial officers are not simply accountants. They track how well the business is doing, both overall and in individual operations. They are deeply involved in strategic and tactical planning, to which they bring this useful information.

Government agencies don't work this way. Even with the new OMB deputy to set accounting standards, OMB and the Treasury both must approve them. As a result, only three sets of standards have been issued in three years, when almost a dozen are needed. Too many important issues still are slipping between the cracks. We need to improve and quicken the process.

Recommendation: ***The executive branch should create a coherent financial management system, clarify responsibilities, and raise the standards for financial officers.***[27]

By the end of 1993 OMB and Treasury should sign a formal agreement to clarify their policy making and implementation roles, presumably eliminating regulatory confusion and overlap for their governmental customers. A new Financial Information Steering Group, chaired by OMB's deputy director for management and including OMB's deputy director for budget, two chief financial officers, and the Treasury undersecretary for domestic finance, should meet to integrate federal budget and financial information. OMB should coordinate the efforts of federal financial agencies to write a strategic plan for improving financial management throughout government, spelling out performance goals for every agency.

In this effort, we will insist on higher qualifications for chief financial officers. After all, many federal agencies are larger than Fortune 500 companies. For those running the nation's financial affairs, Americans deserve employees with qualifications to match those of financial officers in our best companies. By March 1994, working with accounting and banking groups, the CFO Council should create a certification program for federal financial managers. At the same time, OMB should clarify the precise financial functions that the CFO should oversee, trimming responsibilities like personnel or facilities management, that lie outside the CFO's main mission.

Recommendation: ***The federal government should establish credible accounting standards for itself.***[28]

We also must agree on stricter accounting standards for the federal books. We require corporations to meet strict standards of financial management before their stocks can be publicly traded. They must fully disclose their financial condition, operating results, cash flows, long-term obligations, and contingent liabilities. Independent certified public accountants audit their accounts. But we exempt the $1.5 trillion federal government from comparable standards.

In 1990, Congress found that "current financial reporting standards of the Federal Government do not accurately disclose the current and probable future cost of operating and investment decisions including the future needs for cash and other resources." In other words, if a publicly-traded corporation kept its books the way the federal government does, the Securities and Exchange Commission would close it down immediately.

We propose that the Federal Accounting Standards Advisory Board be recreated as an independent board, with greater powers. It should be required to issue a comprehensive set of federal financial accounting principles and standards by September 30, 1995. OMB and Treasury will implement them, and GAO should use them as a standard in financial audits.

Recommendation: ***The Treasury Department should issue an Annual Citizens' Accountability Report.***[29]

Article I, Section 9 of the Constitution requires that " . . . a regular statement and account of the receipts and expenditures of all public money shall be published from time to time . . ." For the last 20 years, our government has issued "prototype" financial statements. The word prototype means that while the statements include categories and numbers, no one can assure their accuracy. Put simply, they would never pass an audit. By 1997, we should require Treasury to provide an audited consolidated annual report on federal finances--including hidden contingent liabilities such as trust funds and government-sponsored enterprises.

By 1994, we propose that Treasury, under an Executive Order, publish a simplified version of the government's financial statement and condition for the public. Americans deserve a clear accounting of how agencies spend their money. We do not mean a detailed and unreadable financial account, but a straightforward description of the money spent and its effects on achieving goals. We will call this the Annual Citizens' Accountability Report.

In addition, OMB should keep close watch on the potential costs we incur when we guarantee loans or bank deposits. Many of these costs begin as "off-budget" items, only to become very large, on-budget events. We must never surprise taxpayers with a half-trillion-dollar catastrophe again.

Recommendation: ***The government should eliminate the budget bias against long-term capital investments.***[30]

Part of straightening out the government's books will involve adopting some financial distinctions that business uses. Federal bookkeeping rules discourage government investments in productive fixed assets, like computer systems. Right now, we count a $5 million investment to purchase a Local Area Network system exactly as we count $5 million spent on staff salaries. American businesses do it differently. Business depreciates fixed assets over time: If the $5 million computer system will last five years, then it only "costs" business $1 million each year.

This bias against capital investments in government accounting is costing the taxpayer hundreds of millions of dollars each year in lost productivity. Already, 37 states have seen the light. They use capital budgeting to deal differently with operating and capital expenditures. Federal agencies need the same flexibility. OMB will propose that Congress change the budget "scoring system" by fiscal year 1995 to prevent any bias that discourages long-term capital investment in needed fixed assets. Moreover, OMB and the General Services Administration will propose a new process to plan, budget and score fixed asset investments.

Step 4: Leadership from the start.

The sweeping change in work culture that reinvention promises won't happen by itself. Power won't decentralize of its own accord. It's going to have to be pushed and pulled out of the hands of the people who have wielded it for so long. It will be a struggle. No one likes to lose power -- the power to say no, the power to hold things up, the power to decide who is hired. Power is one of the few compensations people get for working in a frustrating bureaucracy.

Ironically, sometimes the problem is that the people who have the power won't exercise it. When Congress examined the federal government's past "decade of decline" in management, it concluded the cause was: "first and foremost...the lack of leadership."[31]

In a government that strives for quality and performance, this will not stand. We will not create a better government that costs less unless we have the full commitment of leadership at all levels of the federal enterprise. In the words of one National Performance Review accompanying report: "Without such commitment, this Review will only add to the cynicism that invariably accompanies any effort at genuine change."[32]

Of course, only a new kind of leadership will make a real change: a democracy of leadership. Indeed, our true leaders are the people -- anywhere, at any level -- who have the vision, and then do something with it. Leadership is not a right, won by birth or election. It does not flow to individuals because they have enough tenure or seniority. It does not hinge on popularity or notoriety. Leadership is an act; it does not depend on title or position -- and neither title nor position can deliver it.

Transforming our federal government will mean transforming people's perceptions of what they do as they work. They will turn from bosses into coaches, from directors into negotiators, from employers into thinkers and doers. Leaders in our better government must take a quantum leap away from the control mentality. They must understand that part of their job is to answer the question: "What can we do to help people understand and believe that it's up to them -- and us?"

Nurturing collaborative leaders means nurturing the same set of capacities in everybody. Indeed, leadership must start from the top-down and bottom-up at the same time.[33]

We cannot, with these words alone, cause this change to happen. Even in a world bounded by politics, action speaks louder than words. Michael Jackson hit the charts with one version of our leadership mandate several years back, when he declared that he was going to start with the Man in the Mirror. "If you want to make the world a better place," he sang, "take a look at yourself -- and make that change."

If we want to make the federal government a better place, if we want to let a thousand leaders bloom, our current leadership must make it clear by what we do that, when we offer change, we mean business. That is a promise we must make to the entire community of hardworking, committed federal workers. It is a promise we must keep.

Vaughn Grisham, a keen observer of both success and failure in America's South, observes that, even with widespread participation, "Leadership cannot make less complex what is complex." Dennis West, one of our nation's most effective community leaders, knows what leaders can do about complexity. Of all his professional rules of thumb, he is most religious about the need to focus when he works to empower people towards common goals. "If we don't focus," he says, "then we are just another piece of noise in the heads of people who need help and are trying to use the system."[34]

More than anyone else, the President and his top appointees can stop the noise -- and create this focus. Loudly and proudly, they must lead the movement toward a more accountable, efficient, empowered government. In our current condition, with everyone else nose-down, rabidly following rules and regulations, who else can lead?

Recommendation: ***The President, should issue an executive order in September 1993 committing the Administration to managing for results, outlining his vision for a 21st century government, clarifying roles for the Cabinet and other leaders, and direct agencies to begin work immediately.***[35]

Recommendation: ***The Federal Quality Institute, the Office of Personnel Management and the Office of Management and Budget should begin a government-wide learning effort, focused first on executives and managers, to communicate the President's vision, clarify changes in culture that must be made, promote skills and behaviors necessary to support the culture change, and help individuals and organizations devise their specific change agendas and commitments.***[36]

We also will work to reinvigorate the Senior Executive Service (SES), our select, top-flight corps of policy and managerial executives. We will urge them to take on a corporate leadership perspective in support of government-wide cultural change.

Recommendation: ***To help implement the NPR plans and transform federal management and culture, the President should direct every department and agency to designate a Chief Operating Officer, create a President's Management Council made up of Chief Operating Officers, and assign the Federal Quality Institute to staff the effort.***[37]

Our job is to transform federal management systems and spread the culture of quality throughout the federal government. This is no small task. To accomplish it, we will need at least one high-level member of every agency whose job it is to make it happen. We will call this person the chief operation officer (COO). This will not be a new hire. Secretaries and agency heads may designate any existing executive - including a member of the SES--as the COO. The COO will assist the secretary or director in transforming he organization's management and culture.

A new President's Management Council (PMC), made up of all the agency COOs and chaired by the Vice President, will be the President's chief instrument to make sure the quality revolution takes hold throughout the executive branch. It will help put the NPR recommendations into practice and push forward the ongoing, transformation of federal management. Its agenda will include shepherding the implementation of specific recommendations: identifying and resolving cross-agency problems and opportunities; creating inter-agency task forces to help agencies transform their systems (personnel, budget, procurement, IGs, information technology, etc.); administering a government-wide innovation fund; and soliciting feedback from the public. To keep things clear, the President should issue and executive order updating the mission of the existing President's Council on Management Improvement (PCMI) to better reflect PCMI's responsibility to improve administration--as opposed to management.

The Federal Quality Institute (FQI), launched in 1988, has led the effort to engage government agencies in quality-based management. We will assign FQI as lead staff to the President, Vice President, Cabinet and PMC, responsible for spreading strategic and quality management throughout the federal government.

FQI will be the focal point for communication, networking, training and research around quality in government. It will be the messenger for reinventing government -- carrying the word into the sleepiest corners of the bureaucracy. The Institute will collect and spread new ideas across government. For successful and innovative agencies, it will lead the cheering section. For slower-moving organizations, it will prod and poke until change happens. FQI will make cooperation its best tool, working jointly with the departments and agencies, to help them carry out the difficult process of reinvention.

Recommendation: ***Congress should help lead the way, by granting the President reorganization authority and, together with the President, creating a Joint Legislative Executive Conference to set government priorities.*** [38]

Congress must be part of the solution. Leadership neither starts nor stops at the doors of the White House. In our government, we share power, which means we share responsibility. As part of reinventing government, we hope we can share wisdom, ideas, energy and action as well.

The National Academy of Public Administrators, in stating the obvious, reminds us of our healthy separation and vital interdependence:

> *The relationship between the Congress and the Executive Branch lies at the heart of the successes and failures of the U.S. Government...But the view is widely expressed that the congressional-executive relationship and the institutional capabilities of both branches are in trouble. The sense of frustration and distrust in both branches and among the public is very real and very high.*[39]

The American public is done with gridlock. To deliver better government and save their dollars, we must all pull together. Congress can signal its intention to lead by reinstating the Reorganization Act of 1984, thereby granting the President authority to restructure the executive branch.

Congress has played its own role in wrapping the government in red tape. Many of the rules and regulations that stifle our workers' creativity up in knots come from the Hill. We must engage in a true partnership to design and equip a better future for our nation. The President and Congress should create an ongoing joint Legislative-Executive Conference, where Congressional and Executive leadership can meet to assess real needs and set real priorities for America. Working with an outside organization as facilitator, the bipartisan Conference should offer a forum to open dialogue about policy and management issues that will shape our future.

Recommendation: ***The Executive branch should create one set of Presidential Quality Awards for the federal sector.*** [40]

Real leaders don't take credit, they give it. Recognizing successful initiatives--inspiring to be emulated by others--is a true act of leadership.

Within the executive branch, we already have taken steps toward recognizing and supporting good performance in government. In typical fashion, however, we have created three different award systems, each administered by a different organization. The Federal Quality Institute administers the Presidential Award for Quality. The President's Council on Management Improvement administers the Award for Management Excellence. And the Office of Personnel Management runs the Presidential Quality and Management Improvement Awards for tangible benefits to the government that save more than $250,000.

We propose that the executive branch issue one set of Presidential Awards for Quality. The Presidential Management Council, with staff support from the FQI and the Baldrige Award Office of the National Institute for Standards and Technology should combine the existing awards. The Awards should recognize agency and work unit quality initiatives and ideas, based on program performance, cost savings, innovation and customer satisfaction.

Step 5: Plan and budget strategically

In late 1991, the General Accounting Office found that only 48 of the 103 federal agencies it surveyed were using strategic planning techniques or had articulated a vision statement for their work. Only nine percent collected performance data to assess progress toward goals set out in a plan.[41]

America's service industries generally estimate the cost of poor quality at about 25 percent of revenues. It's safe to assume that poor quality costs federal bureaucracies at least that much. If so, our potential savings from productivity and service improvements could rise beyond $55 billion over the next five years.[42]

The important point is this: No one improves quality or saves cost without *planning* for it. Accidents do happen, but that's no way to run a government. If we don't begin this effort by crafting real strategic plans tied to our missions, budget for them, and measure their success, we will likely fail. If that happens, we will, as Rudyard Kipling once put it, "have forty million reasons for failure, but not a single excuse."

The key planning document in government is the budget. But *planning* is the last thing we do when we prepare the federal budget.

Making a budget in government is not pretty. Nor is it fun. In most governments, budget time is known as the season from hell.

Consider the basics. Early every year, the President asks every agency to estimate what they will need to carry out their programs in the fiscal year that begins almost two years later.[43] This is like asking someone to figure out not only what they will be doing, but how much it will cost three years from now--since that's when the money will be spent.

This exercise starts from the bottom up. Bureau and program managers typically examine last year's activity data and project the figures three years out, with no word from the top on policy priorities. No formal process helps determine total budget levels or make trade offs among conflicting priorities prior to the development of agency budget requests.[44] Managers asked to develop budgets without knowing the constraints on the total budget or the President's or Secretary's new priorities. In other words, managers are asked to budget as if they are playing "pin the tail on the donkey." They are asked to hit an unknown target while being blindfolded.

OMB, acting for the President, then crafts a federal budget through back and forth negotiations with agencies over the entire year. Deals are struck with dollars Congress may never appropriate--dollars that, to the agencies, mean people and equipment and everything else they need to do their jobs. OMB examiners question agency staff as they develop OMB options papers. Then the OMB Director holds Director's Review meetings to consider the options. After another pass back process and an appeals process, the numbers are "firmed" up.

The following January, the President presents a budget proposal to Congress for the fiscal year beginning the next October 1st. This event is greeted with great fanfare, as the media and interest groups try to beat Congress and the states to figure out who gets how much.

At this point the serious dealing begins, as Congress debates and amends provisions in the President's budget. Although two committees rule the budget process -- the House and Senate Budget Committees -- every committee touches it. Authorizing committees debate the merits of individual government programs and activities that fall into their subject area -- like housing or crime or foreign aid. Then they decide which programs should continue, and recommend an amount they think the program should be able to spend. Appropriations committees consider the amount authorized, and then establish a different amount that the program actually may spend.

While all this is going on, the budget committees must first come up with a concurrent resolution proposing the first draft of Congress's version of the budget by April 15. The authorizing committees then weigh in with their decisions -- called the "budget authority." The first resolution is usually adopted in mid-May, and from then until mid-September Congress finishes all its authorization and appropriations work, and then passes a second budget resolution. Of course the House and Senate versions never agree, so they must be reconciled sometime in the last two weeks of September before the fiscal year begins on October 1. But Congress rarely finishes on time. This means agencies usually operate during the months of the fiscal year under "continuing resolutions" that simply extend their ability to spend at last year's levels.

Needless to say, during the entire process, agency officials troop back and forth endlessly to OMB and to the Hill to make their case and justify their existence. State and local governments and advocates representing people and organizations that receive federal funding also want to take agency time to argue their causes. Budget staffs work non-stop preparing this estimate and that projection. All this effort goes *making a budget*--not planning or delivering programs.

Ironies riddle the process.

Note that in most cases, each agency program or activity has its own "line" in the budget. It stretches reason to believe that even the most able and conscientious OMB officials or Members of Congress could make meaningful judgments about every line they oversee.

Note that both OMB and Congress are likely to reduce or alter every budget line they touch. They are particularly likely to question any funds that have not been spent--and to reduce the ensuing year's budget by that amount. These two phenomena lead agency officials to inflate their estimates, driving budget numbers higher and higher. One bureau director claims that many regularly ask for 90 percent more than they eventually receive.[45]

Note that Congress compresses its discussions on the actual budget into such a short time that many issues the public feels are most important -- what to do about drug addiction, or how to prepare workers for jobs in the 21st century, for example -- are never debated or discussed only briefly.

Note that uncertainty rules: Even though they must start figuring their budget two years ahead of time, agency officials still don't know by October 1st how much money they will have to spend.

Note that the initial estimates are based on guesses, not data. The process is devoid of real, useful information until very late in the game. There is no meaningful way to really account for what the money we spent last year -- or the year before that -- actually accomplished. The basis for coming up with a number for your next budget is simply what you got before, whether it made sense or not.

In total, the current budget process is characterized by fictional requests and promises, an obsession with inputs rather that outcomes, and a virtual abandonment of debate about critical national issues.

The only way to change the way we do things, and not simply to change a few things we do, is to start planning strategically--tying our spending to priorities and performance. The first step is to create a rational budgeting system.

Recommendation: ***The President should launch the budget process with an Executive Budget Resolution, setting broad policy priorities and allocating funds by function for each agency.***

The content of the budget -- not the process -- should be the primary concern of every manager at every level of the federal government. We recommend that the President issue an Executive Order in January 1994 to mandate the use of an Executive Budget Resolution process to develop the President's fiscal year 1996 budget. This Resolution should turn the executive budget process upside down. As the first step, OMB would meet with White House policy councils and top agency officials. At these meetings, during June and July, the Administration's policy leadership would make decisions on overall spending and revenue levels, plus deficit reduction targets and funding allocations for major policy missions.

The product of the leadership meetings would be an Executive Budget Resolution, released to agencies by August. After that, bureaus within agencies would generate their own budget estimates -- only this time with actual knowledge about priorities and fiscal limits for their parent agency.

OMB would manage this process, setting the schedule, recording the decisions, raising issues, requesting clarification, and providing data. The process would also closely involve the National Economic Council, the Domestic Policy Council and the National Security Council, which would guide the discussions on mission and funding priorities.

Australia now uses a budget process something like this. Our own Environmental Protection Agency (EPA) tried a similar approach in the 1970s as part of a zero-based budgeting trial run. Every EPA assistant administrator attended two three-day retreats to hammer out resource allocation decisions. Participants reported that although the "zero-base" theory fell short, two important advantages emerged: a new responsiveness to internal customer needs and a commitment to final decisions. The first year, when voting on their highest and lowest priorities to achieve a 10 percent reduction in funds, the research and development division lost out because many felt it had ignored program needs while funding work that interested particular researchers. Quickly, the researchers began to ask other programs what they needed to support their efforts. EPA also found that after the leadership had agonized over the funding decisions, no one wanted to appeal, because the whole process might be reopened. Leaders committed to their joint decisions.

Some may argue that the Executive Budget Resolution process is a top-down approach that will stifle creative, bottom-up suggestions for funding options. In fact, the process shares responsibility. It renders high-level officials responsible for overall budget totals and policy decisions, while soliciting bottom-up ingenuity from staff to devise funding options within those guidelines. The process encourages policy makers to focus on broad policy decisions, leaving program decisions to program staff. If we adopt this plan, micro-management may vacate the executive budget premises.

Recommendation: ***The Federal government should institute biennial budgets and appropriations.***[46]

There is no reason why budgets should be passed every year. Twenty-one states adopt budgets for two years (with the freedom to make small adjustments in non-budget years if revenues or expenditures deviate widely from forecasts). As a result, their governors and legislatures have much more time to evaluate programs and develop longer-term plans.[47]

Annual budgets consume an enormous amount of management time -- time not spent serving customers. If we had biennial budgets, instead of losing months to a frantic "last-year's-budget-plus-x-percent" exercise, we might spend more time examining which programs actually work.

The idea of biennial budgeting has been around for some time. Then-Congressman Leon Panetta introduced the first biennial budgeting bill in 1977, and dozens have been offered since.[48] Although none have passed, the ballooning deficit is making budget decisions more difficult and the process even more time-consuming.

The government has some experience with budget plans that last two years or longer. In 1987, for example, Congress and the President agreed to a two-year budget plan for fiscal years 1988 and 1989. The November 1987 legislative-executive branch budget summit agreement set two-year spending levels for major programs. That accord allowed Congress to enact all 13 appropriations bills on time for the first time since 1977.[49]

In another test, Congress directed the Department of Defense (DOD) to submit a biennial budget for fiscal years 1988 and 1989, to relieve Congress of detailed annual budget reviews and provide more time for broad policy oversight. At the time, Congress expressed ~~its~~ belief that a biennial budget would "substantially improve DOD management and congressional oversight,"and that while it was preferable to subject all federal spending to a two-year budget, "...beginning with the DOD budget is important."[50] Administrations have continued to submit biennial budgets for DoD, as well as the Coast Guard.

Moreover, the Budget Enforcement Act, enacted in 1990, set 5-year spending limits for discretionary programs and pay-as-you-go requirements for mandatory programs. With these multiyear caps agreed upon, neither the President nor Congress has to decide the total level of discretionary spending each year. The fact that these caps are now set in advance provides even more reason to move to biennial budget and appropriation cycles.

A 1993 survey tallied 70 percent of Congress now in favor of a biennial process with a two-year concurrent budget resolution and multiyear authorizations. Fifty-seven percent favored multiyear authorizations and two-year appropriations.[51] The time is ripe for biennial budgeting.

We recommend that Congress amend the Congressional Budget Act of 1974 to establish biennial budget resolutions and appropriations and multiyear authorizations. The first biennium should begin October 1, 1996, to cover fiscal years 1997 and 1998. After that, bienniums would begin October 1 of each even-numbered year. The proposed timing would allow President Clinton to fully develop the first comprehensive biennial federal budget,built on the new executive budget resolution. In the off year, the President would submit only amendments for exceptional areas of concern, emergencies, or other unforeseen circumstances.

Biennial budgeting will not make the budget decisions facing our nation any easier. But it will eliminate an enormous amount of busy-work--busy-work that now get in the way of evaluating results and meeting customers' needs.

Conclusion

We aren't the first to try to reinvent government in this country. Our nation's founders -- the first Americans -- hold that honor. They suffered under royalty, the world's prevailing form of government. Under that system, a central decision maker gathered information from the hinterlands, held it close, pondered it, made decisions for better or for worse, and then issued rules and instructions that everyone had to obey. It was central control to the extreme. It was based on distrusting people.

Our founders rejected that system for a new model, one characterized by a shared vision of what our nation should be, set forth in a few guiding principles -- the Declaration of Independence and our Constitution. Our system frees each and every citizen to decide each and every day how his or her actions will contribute to achieving our shared goals. It proceeds from the revolutionary assumption that the people best equipped to guide the destiny of the nation are the citizens themselves, because they know best about the circumstances of their lives. It sounds simple and sensible, but in the 1700s, it was untested and untried. It required an enormous leap of faith, and an enormous amount of trust in the people.

Today's federal government is no 18th century autocracy. But a few similarities are striking. Bogged down and bloated by a paralyzing growth of rules and restrictions, federal agencies today often act like the central decision makers of old. They gather information, hold it close, process it, and then issue edicts that all must obey. They don't trust people -- not even their own employees.

To change the employee culture in the federal government, to bring about a democracy of leadership within our bureaucracies, we need more than a leap of faith. We need a leap of practice. We must move from control to collaboration, from headquarters to every quarter. We must allow the people who face decisions to make decisions. We must do everything we can to make sure that when our federal workers exercise their judgment, they are prepared with the best information, the best analysis, and the best tools we have to offer. We must then trust that they will do their best.

Back in Tennessee, someone once asked an old man known for his wisdom why he was so smart. "Good judgment comes from experience," he said. And experience? "Well, that comes from bad judgment."

Our experience with poor federal judgment tells us it is time to exercise some good judgment and make a change. To transform the culture of control and distrust in government, we must transform the very organizations we have created to exert control. When we do, we will release the same surge of creativity, energy, productivity and performance in government service that was unleashed 200 years ago in the service of governance.

Chapter Four
Doing More with Less

I feel like the person in the old movie who writes in lipstick on bathroom mirrors, "Stop me before I kill again." However, in my case, the legend should be, "Stop me before I steal some more."

Letter from Bruce Bair of Schoenchen, Kansas to Vice President Al Gore
May 24, 1993

Bruce Bair admits to "stealing" from the federal government--at a rate of about $11 an hour. His job was checking the weather in Russell, Kansas every hour, and sending his reports to the Federal Aviation Administration. The FAA uses the information to warn planes in the area about bad weather. There's just one catch: Few planes fly in the area now. While Russell was once a busy flight station, it isn't any more. Bair says that while working the midnight shift at the flight station, he saw just two landings in more than a year's time. Days are only slightly busier.

Before advanced radars and other automated weather gathering devices, the Russell flight station was once an important part of the aircraft safety network. Now, says Bair, it has turned into an anachronism from an earlier era. And Russell is not the only one. Similar tiny weather watching posts exist in nearby Hill City and Garden City and in other small towns in the Midwest.

The weather watchers who staff these stations could probably be replaced with machines that gather information more frequently and more consistently than humans. Many air stations, including the one at the busy airport in Hays, Kansas, are already using such machines. In fact, the Russell flight station has had one for some time, but the FAA has not yet taken the next step--eliminating the human weather watchers. Considering how few planes land there, says Bair, "from my experience with the machine, it is very adequate to protect the air space over Russell."

Bair concluded his letter to Vice President Gore by saying: "I feel there is very little doubt among professionals that we are basically useless here." A few weeks after he wrote that letter, Bair quit. Now, he says, "I'm no longer stealing from the government."*

Bair's story tells us much about our federal government--how entrenched it is in the old ways, how slow it is to question its own procedures, how very slow it is to change. But if we start asking the right questions, if we look at government with a critical eye rather than a complacent one, we can move it in the right direction. We can make government operate more effectively. And we can save lots of money.

To do that, however, we must ask: Is government still doing things that it no longer needs to? Are we paying for obsolete programs? Are we paying for programs that weren't needed in the first place? Are we spending public money to benefit special interest groups? Are we doing all we can to stop fraud? Are we doing all we can to deny benefits to people who aren't eligible for them?

When we start acting on the answers to those questions, we will begin to have a more effective government. Then, we face a second task: We must fight for a fairer government, one that collects on the loans it makes and the taxes it's owed. When agencies allow some people to escape their obligations, the burden increases on honest citizens.

Finally, we must make government work better by taking a hard look at its internal processes. We must "reengineer" the design of programs so that their operations will cost less. We must consolidate programs to eliminate duplication. We must adopt more efficient ways to design regulations and resolve disputes. And we must take advantage of the revolution in computers and telecommunications to cut service delivery costs.

If we follow these steps, we will move much closer to a government that costs less and works better for all of us. It will be leaner, more effective, fairer, and more up-to-date. It will be a government worth what we pay for it.

Step One: Doing Less

Like the anachronistic weather-watching stations, government does many things not because they make sense, but because "it's the way we've always done them." Inertia like that isn't easy to overcome. In fact, federal budget expert Allen Schick says he can identify just three non-defense programs eliminated since 1980: general revenue sharing, urban development action grants and the fast breeder reactor program.*

Why? Because old programs never die naturally. They enjoy support from special interest groups, and the special interest nearly always prevails over the general interest. It is more intent on saving a program than anyone else is in ending it. But we must overcome those special interests and scrap programs that serve narrow purposes. Government should not subsidize industries that could prosper without it.

Finally, waste, fraud, and abuse unfairly burden the honest citizen and brings the business of government into disrepute. We must apply the principles of a more efficient bureaucracy to root out such problems.

Eliminating theObsolete

After World War II, a British Commission on modernizing government discovered that the civil service was paying a full-time worker to light bonfires along the Dover cliffs, just in case a Spanish Armada was sighted. But the last Spanish Armada was defeated some years before--in 1588, to be precise.

We may laugh at the British, but we have our own government bonfire lighters. We must scrap all obsolete programs, beginning with these:

Recommendation: ***Congress should create an independent commission, like the Base Closing and Realignment Commission, to review agency proposals for closing and consolidating some of government's 30,000 field offices. Congress should consider the commission's recommendations as a package.****

The federal government runs 30,000 field offices across the country. In fact, four of five federal employees work outside of Washington. Over the years, our system has grown too large and become outdated. It provides neither good services nor makes good economic sense. Workloads are unevenly distributed; some field offices are underutilized while others are overworked. Some duplicate other government activities. Some are located too far from their customers to serve them well.

Since the 1950s, federal task forces have been trying to develop and carry out a rational field office restructuring. None of these efforts has been successful--due in large part to vigorous congressional opposition. We now propose that Congress apply the same bipartisan, business-like approach it adopted for military base closings to the restructuring of the federal field office system.

Recommendation: ***The Agriculture Department should develop a multi-year plan to recast the agency's structure--making no presumptions that any existing programs should automatically continue. The secretary should submit the first phase of this plan to Congress with the department's fiscal 1995 budget.****

The Agriculture Department, with the most elaborate field office system of all federal agencies, can provide a model for change.

Many of USDA's field offices opened in the 1930s, when farming was a much larger share of the national economy and employed many more people than today. Eventually, the system grew to five separate field services: the Agricultural Stabilization and Conservation Service, the Soil Conservation Service, the Farmers' Home Administration, the Extension Service, and the Federal Crop Insurance Corporation. Together, these services have more than 12,000 offices.

The Agricultural Stabilization and Conservation Service and the Soil Conservation Service operate offices in 85 percent of America's 3,150 counties; the Farmers Home Administration operates in more than 60 percent. And the extension service, created to teach farmers about new methods of farm production, retains an agent in nearly every county in America. Only 16 percent of counties, however, are considered "farm counties."

And some of these field offices have very few customers. In 1991, the General Accounting Office reported that in Gregg County, Texas, the Agricultural Stabilization and Conservation Service served 15 farmers; in Douglass County, Georgia, two USDA programs served a total of 17 farmers.*

As part of its emerging efforts to close unnecessary field offices, the department recently developed a six-part scoring system to determine whether an office is worth keeping. A more rational allocation of staff will improve services and can save millions of dollars for the taxpayers. The department's current plan to close 127 unnecessary field offices is expected to save $338 million over five years.

Recommendation: ***Congress should eliminate 35 Education Department programs that duplicate other programs, have achieved their purpose or are more appropriately funded through non-federal sources.*.***

The Education Department runs 230 programs. Because each is separately run and separately funded, administrative costs increase and money is diverted from programs central to the department's mission. We must eliminate or consolidate several categories of programs.

One category includes programs that duplicate one another. For example, the National Academy of Space, Science and Technology program and the National Science Scholars program both give scholarships to post-secondary math, science and engineering students. The department doesn't need them both.

Another category includes programs that have fulfilled their goals. State Student Incentives Grants, for instance, were created to encourage states to develop need-based student aid programs. Now, all states have such programs.

Still another category includes programs that can and should be funded by non-federal dollars. The Research Libraries program funds research libraries to build their collections. University endowments could support these efforts.

The elimination or consolidation of 35 Education Department that are no longer justified would save $360 million a year that could be used on other department priorities.

Recommendation: ***The government should reduce its role in helium production by terminating government helium production and allowing federal agencies to buy refined helium from private industry.***

Set up in 1925 to ensure adequate supplies for blimps, the federal government maintains a national stockpile of helium for our fleet of lighter-than-air balloons. Now, it possesses nine times the current world demand for helium, and enough helium to serve government needs for 50 years. In acquring the helium, the government also incurred a debt of $1.2 billion. We don't need the Helium Fund anymore; no compelling national interest justifies it.* Private suppliers could meet helium needs at much lower cost.

Recommendation: ***Congress should pass legislation to let the sale of the Alaska Power Administration occur.***

With regard to the Alaska Power Administration, the federal government once played a crucial role but no longer.

The government has five Power Marketing Administrations that market power from 129 hydroelectric projects nationwide. These hydroelectric projects generate 45 percent of the nation's hydroelectric power, which the PMAs sell to local public, private, and cooperative utilities at cost. Unique among the PMAs, the Alaska Power Administration owns, operates, and maintains two hydroelectric projects.

Created to encourage and promote economic development in Alaska, the two projects have served their original purpose well. At this point, their role in providing electric power has greatly diminished. With the time ripe, various public agencies have urged the federal government to divest itself of these projects. The Alaska Power Administration signed contracts in 1989 with public agencies to sell the projects. The sale would bring $80 million into the U.S. Treasury and save millions more in yearly operating costs.

But while state and local officials, Alaska's congressional delegation, the Energy Department, the Office of Management and Budget, and the House Appropriations Committee support the move, it still awaits federal authorizing legislation.*

Recommendation: ***Congress should terminate the Airway Science Curriculum and Grants Program and the Collegiate Training Initiative for Air Traffic Controllers.***

In 1982, the Federal Aviation Administration launched a program to stimulate high-quality aviation curricula at universities and other post-secondary schools. It hoped to enhance aviation curricula and better prepare students for jobs in the industry.

So far, the program has spent about $4 million on consultants to review schools' programs and another $100 million in grants for buildings and equipment. Many institutions now offer various aviation curricula--with no financial incentives from government. We no longer need this federal program.

A similar program, begun a year earlier, also is obsolete. The Collegiate Training Initiative for Air Traffic Controllers was supposed to determine whether other institutions could offer the same training for controllers as the FAA Academy--and save government the $20,000 it spends training each new controller. The answer was yes.

Five schools now participate in the program and are producing well qualified air traffic controllers; only two of those schools received any government funding. At this point, we do not need government subsidies.*

Eliminating Special Interest Privileges

Not all unnecessary programs are obsolete. Some reflect the power of special interest groups to manipulate the political process. Claiming to pursue national objectives, government runs programs that guarantee profits to specific industries by restricting imports, raising prices, or paying direct and unnecessary subsidies.

Recommendation: ***Congress should eliminate federal support payments for wool and mohair.***

Take wool, for instance. During World War II and the Korean conflict, the U.S. imported about half the wool needed for military uniforms. To cut dependence on foreign suppliers, Congress in 1954 passed the National Wool Act, providing direct payments to American wool producers: The more wool a producer sold, the greater was the government subsidy. In 1960, the Pentagon removed wool from the list of strategic materials. But the Wool Act remained in effect--a tribute to adept lobbying.

Between 1994 and 1998, wool subsidies will cost an estimated $760 million. About half the payments will go to ranchers who raise Angora goats for mohair--a product that is 80 percent exported. So American taxpayers will subsidize the price of mohair sweaters overseas! And some years, the subsidies far outpace market prices. The 1990 mohair checks, for example, totalled $3.87 for every dollar's worth of mohair.*

Though about half of this program's beneficiaries each receive only $44 a year, the top one percent of sheep raisers captured a quarter of the money--nearly $100,000 each. The national interest does not require this program. It provides an unnecessary subsidy for the wealthy. We must abolish it.*

Recommendation: ***Congress should eliminate federal price supports for honey.***

World War II also brought us federal subsidies for honey production. During the war, honey was declared war-essential because bees' wax was used to wrap ammunition while honey replaced rationed sugar as a sweetener. When honey prices dropped after the war, the federal government began supporting honey production.

The government sought to ensure that enough honeybees would be available for pollination, and the program was designed to last only until bee keepers could get adequate fees to encourage pollination. More than 40 years later, every bee keeper in the U.S. is eligible for a federal loan using produced honey as collateral. In 1992, the loan repayment rate was 47 cents a pound, nearly 7 cents lower than the federal loan rate, according to the Congressional Budget Office. Thus, taxpayers subsidize borrowers for the difference. By scrapping the program, the government would save taxpayers $30 million over the next four years.

Recommendation: ***The Agriculture Department should endorse legislative proposals to limit deficiency payments to $50,000 a year, eliminating all payments to partnerships and corporations and limiting them to individuals. Payments to individuals with off-farm incomes of $100,000 or more should be reduced.*** *

Crop deficiency payments also cost taxpayers dearly--about $9 billion a year. A third of the nation's farmers--growing anything from rice, cotton, corn, wheat, and other feed grains--receive deficiency payments. The payments are subsidies distributed when market prices for crops fall below congressionally-fixed targets. As with most farm subsidy programs, the big money goes to a few producers. In 1991, nine percent of recipients received over $25,000, accounting for nearly half of program costs.

Lawmakers have tried to contain program costs for a long time, but with only limited success. Officially, payments are limited to a maximum payment of $50,000 to a single producer. But legal loopholes allows families to split up farms, giving up to three individual family members $50,000 each.

Fraud is also widespread. In 1990, the Agriculture Department's (?) Inspector General investigated 23 multi-entity farming operations, concluding that 143 of the 205 recipients of crop deficiency payments were nothing more than shell organizations existing solely to create extra eligible recipients. These shells received 70 percent of the payments.*

Recommendation: ***Congress should amend the Essential Air Service program to prohibit subsidies to locations in the 48 contiguous states within 70 miles of a hub airport; limit subsidies to no more than $200 a passenger, and give the Transportation Department authority to establish more restrictive criteria for the program.***

The Essential Air Service program was created in 1978 to help small communities make the transition to a deregulated air transportation system. It guaranteed air service for a 10-year period, subsidized where necessary, to small communities that might not otherwise receive scheduled air service.

A decade later, Congress extended a more restrictive version of the program for one year. But in 1990, it lifted those restrictions and extended the program in its earlier form once more. Its budget has grown from $28.5 million in 1988 to $38.6 million in 1993.

The program serves 25 communities located less than 75 miles from a hub airport, and often serves very few passengers in each community. In 1992, nine locations that received $3 million in subsidies served an average of five or fewer passengers a day. One community, 60 miles from a hub airport, received subsidies averaging $433 per passenger.*

The Transportation Department's Inspector General has determined that the program's costs outweigh its benefits. And after many years of congressional resistance to limiting or cutting the program, a congressional subcommittee agrees, concluding this year that the program lacks adequate oversight and merit-based criteria. Limiting the program as recommended would save $11.6 million a year.

Recommendation: ***Congress should change the federal-state unemployment insurance compensation program to put those who leave military service voluntarily on the same footing as civilians who leave their jobs voluntarily.****

Provisions of federal law that treat similarly-situated people differently should be eliminated as a matter of principle. We must fight for fairness at the same time that we fight for efficiency.

Currently, those who voluntarily leaves jobs cannot draw unemployment compensation while searching for new jobs. But anyone voluntarily leaving the military is immediately eligible for compensation. We urge that, after appropriate safeguards to protect those leaving the military as a result of downsizing, the law be made equitable. Such a change could generate $1.4 billion in savings between 1994 and 1998.

Step Two: Collecting More

Given the size of the federal deficit and the strong national imperative not to raise taxes, government must find more ways to raise revenues. In Chapter 2, we addressed the need for government to raise money by becoming more enterprising--charging fees for services, setting market rates, and creating incentives for agencies to raise non-tax revenues. In this section, we address the need to increase revenues by collecting what is due the government: back taxes, delinquent loans, accidental or fraudulent overpayment of benefits. They all cost us. In the interest of fairness, we must find ways to collect. The government has too many debtors.

At the end of last year--excluding back taxes--the federal government was owed $241 billion. Of this total, a shocking $47 billion was delinquent, representing a delinquency rate of 20 percent.

The government, our country's largest lender, is owed money by former students, small businesses, farmers, companies developing alternative energy sources, even foreign companies and governments. If a bank suffered a delinquency rate one-tenth of the government's, teams of federal regulators and prosecutors would descend on it, demanding that it manage itself better or negotiate a takeover by another institution.

But we do not judge our government as rigorously, or even by the same set of standards. Most agencies are judged by output alone. They measure how many loans are made, how many students borrow for college, how many flood victims get loans for rebuilding, or how many farmers can borrow against future crop sales. So government institutions hire people to make loans, not to collect on delinquent ones. Agencies are rarely held accountable for loans that aren't repaid. And all too frequently, neither are the delinquent borrowers.

Some people take advantage of government's largesse. They don't pay taxes, don't repay loans, or double claim for health insurance benefits. And the government has made it far too easy for people to get away with it. The result? Honest people are subsidizing their less scrupulous neighbors.

Their actions raise the costs of federal programs, diverting money away from where it was intended; and they discredit our system of governance. Here are the first steps we will take to end these practices.

Collecting Unpaid Taxes

The Internal Revenue Service should continue its pilot projects for improving taxpayer compliance. It also should be allowed to use funds saved through the Tax System Modernization for increasing collections--as long as IRS officials devise a method to measure the improvements in collection. IRS should decentralize its processing so it can share more information with state tax agencies.

Unpaid taxes are a $225 billion problem. Here's where that number comes from: First, $111 billion is owed on back taxes. Then, $114 billion comprises the "tax gap," the amount that people don't pay each year by not reporting income or not filing returns. But while the backlog grows and the tax gap widens, the IRS is auditing a smaller and smaller share of returns--one percent last year compared with 1.6 percent a decade ago.

The IRS needs a thorough modernization of the whole tax system--an efficient computer system, automating tax returns, and wholly new work environments and training for its 115,000 full-time personnel. The agency operates a computer system first put together in the 1960s, not the tool that our principal revenue collector should be using. The IRS has begun developing new hardware and software. It has not, however, begun the more difficult task of figuring out how to train its staff to operate in a reengineered agency. We urge continued support for investments in new hardware and training, as discussed in Chapter 3.

Collecting User Fees

As we outlined in Chapter 2, an enterprising government is one that takes advantage of its economic potential by charging fees, when appropriate, for using its assets, then reinvests those fees to produce better services. Another compelling reason for user fees is fairness. We believe that, whenever possible, the federal government should establish the principle that the people who use a service should pay for it.

Recommendation: ***Congress should enact legislation to authorize the State Department to collect and retain land border crossing fees and inspection fees to fund a single, independent border management and control agency.***

The federal government loses millions of dollars annually because of inconsistent user-fee statutes and policies applied to travelers entering the U.S. While air travelers pay $12 in Customs, immigration, and agriculture inspection fees, land border travelers rarely pay similar charges.

And the user fees that are collected don't come close to covering the cost of managing our borders. Control of our borders is essential to national security. But to manage our borders well, we need to allocate more money. We believe those who cross the borders should bear the substantial part of the cost.

Recommendation: ***By fiscal 1995, the Royalty Management Program should develop and begin using new computer programs to analyze and cross-verify data from paperwork and traditional field audits. The Interior Department also should ask Congress for permission to assess penalties on substantial underpayments and fees on a broader range of administrative costs.***

The Interior Department's Minerals Management Service collects an estimated $4.7 billion annually in mineral royalty income from mining activities on federal lands. But the MMS auditing system is limited, and focuses heavily on the largest royalty payers. The system rarely audits smaller mining companies--increasing the possibility that their underpayments are overlooked.

To increase the program's effectiveness, we recommend a series of changes in the auditing and collection policies. These changes could bring the government as much as $8.5 million annually in new revenues.*

Collecting Debt

If the federal government put a high priority on pursuing delinquent debt, it could expect to collect up to $10 billion over the next five years. A strategy to make this happen would include these three elements:

Recommendation: ***Congress should grant agencies the flexibility to use some money they collect from owed debts to enhance further debt collection efforts, and to keep a certain portion of any increased collection amounts. Congress should eliminate restrictions on the private collection of debt by contractors to federal agencies. Congress should modify circular A-129 to require the referral of non-tax delinquent debt for private collection after three months, instead of six.****

Many pilot programs have shown that small investments in debt collecting yield high returns. As detailed in Chapter 2, the Veterans Affairs Department increased its medical care cost recovery from $24 million in 1987 to $520 million in 1992, in part just by increasing the numbers of people assigned to collect what was owed.

At the Education Department, collection revenues fund further collections of Higher Education Act debts, and the department has used private debt collectors effectively. But while we know that private collection agencies can do the job very efficiently, many agencies--including the Farmers Home Administration, Social Security, the IRS, and the Customs Service--are statutorily prohibited from using private agencies for the job, even on a contingency fee basis. Congress should lift those restrictions.

Finally, the government should take action to collect delinquent payments three months after they become delinquent. This will send a signal to debtors that the government is serious about getting paid.

Recommendation: ***Beginning in fiscal 1994, Congress should authorize the attorney general to credit up to 3 percent of funds collected from civil debt litigation to a working capital fund.* In addition, Congress should authorize each U.S. attorney to retain up to one percent of debt collections of $500,000 or less referred to the attorneys through the Justice Department's national central intake facility for debt collection. ****

Currently, the Justice Department has exclusive authority for litigation of delinquent debt cases. And while Justice handles the larger claims, it refers those under $500,000 to local U.S. attorneys' offices, where debt collection is often a low priority.

To create incentives and make the system more effective, the Justice Department should reinvest a portion of the funds it recovers in larger claims in a working capital fund that would be used to create a centralized debt tracking system. And U.S. attorneys' offices should be given more incentive to vigorously pursue debt collection by being allowed to keep a portion of funds they recover.

Eliminating Fraud

While many think government steals from people, the reverse is true. People steal from government. And, unlike private companies, government agencies aren't very good at finding and prosecuting thieves. The bureaucracy offers little deterrence to dishonest people. We can change that reality.

Recommendation: ***Congress should amend the Federal Employees' Compensation Act, creating a felony for knowingly lying on an application for benefits under that law. Congress should amend federal law so individuals convicted of fraud are ineligible for continued benefits.* The Office of the Inspector General should get 20 more full-time employees dedicated to enhancing FECA fraud investigations.****

Many agencies provide benefits to people injured or taken sick. Not all their recipients are legitimate claimants. Yet, when they discover fraud, those agencies may not be legally able to terminate benefits--so we keep paying fraudulent claims. For example, under the Federal Employees' Compensation Act (FECA), the Office of Workers' Compensation Programs cannot end benefit payments even after finding that someone made false statements about disability or illness.

In one case, a former federal employee who collected almost $200,000 in benefits under the FECA disability program while working then hired someone to kill a witness who told the government about the fraud. But even after the man was convicted of hiring the killer, the Office of Workers' Compensation could not terminate his compensation on the basis of his original false statements.

Recommendation: ***The Social Security Administration should make every effort to remove from its rolls people who are no longer disabled. If necessary, Congress should make separate appropriations from the Social Security trust funds and from general revenues to reduce disability claims backlogs and ensure adequate funding for continuing disability reviews.****

The Social Security Administration serves more than 10 million people through its two disability programs. But the General Accounting Office has estimated that 30,000 of these recipients are no longer eligible, causing overpayments from the trust funds that will reach $1.4 billion by 1997.*

But SSA faces a dual problem--not just unlawful benefits to those who are ineligible, but also late payments to legitimate claimants. Using present management practices, SSA lacks the staff to review its rapidly escalating caseload. The backlog of 700,000 initial claims is taking priority over reviewing continuing cases.

The agency's progress toward creating a single disability claims processing system should be supported. The agency should be given greater flexibility in shifting funds to invest in hardware and software as well as in redeploying staff to meet growing demands.*

Recommendation: ***Congress should amend the Social Security Act to direct the Social Security Administration to provide a clearinghouse for death information and reporting.****

Obviously, the Social Security Administration should stop paying benefits when recipients die. But it's not easy. SSA regularly obtains death information from states under agreements with each of them (except Virginia). But most agreements restrict SSA's disclosure of death data, so limited data sharing occurs among states and with other federally-administered benefits programs. The result is millions of dollars in overpayments. We need not serve customers who are no longer alive. *

Step 3: Reengineering programs to do more with less

When confronted with a new problem, we instinctively try to create a new program. But rarely do we discard old programs. So we build in duplication, not deliberately to make extra work, but simply because government grows, almost inevitably. Programs accumulate like coral reefs, the slow and unplanned accretion of tens of thousands of ideas, legislative actions, and administrative initiatives.

Now, we must find our way through these reefs. As a participant at the National Performance Review's meeting at the Housing and Urban Development Department told us, "There isn't always a rational basis for the way we are set up in this organization. Over the years, branches have developed; they have been taken over by divisions; and we don't look at the organization as a whole."

In the past turbulent decade, our best-run businesses recognized that they weren't organized to do what they were doing. Their structures reflected their history, not current needs. Attempts at reform didn't work; too many people had vested interests in preserving parts of the organization. Consequently, reform meant shifting things among different boxes in organizational charts. Businesses needed to reengineer--and the key to reengineering was forgetting how they were organized, deciding what they needed to do, and designing the best structure to do it. An obvious insight? Perhaps. But the best ideas are always the ones that seem obvious--after their discovery.

We can reengineer government in three ways. First, we can eliminate duplication. Reengineering in private companies usually leads to dramatic simplification as duplications are discovered and eliminated. Many federal programs echo each other's activities, providing the same customers with similar services. In their dim administrative pasts, they were conceived quite differently--but the passage of time and changing circumstances have blurred those distinctions. Now, we must consolidate, ensuring we spend as little as possible on overhead and as much as possible on customers.

Second, new technologies provide a wide-open window of opportunity for re-engineering. With computers and telecommunications, we need not do things as we have in the past. We can design a customer-driven electronic government that operates in ways that, 10 years ago, the most visionary planner could not have dreamed of.

And third, there are better ways to design some federal operations--better ways to develop regulations or to resolve disputes, for example--that can cut costs and improve services.

Redesigning Programs to Eliminate Duplication

Duplication is built into the federal bureaucracy. Because managers cannot deviate from rigid procedural controls, their only option in responding to a new problem is to create a new program.

For instance, as economic conditions have changed, we have created at least four major programs to help laid-off workers: (1) the Economic Dislocation and Worker Adjustment Assistance Act (EDWAA), spending $517 million through the Job Training Partnership Act for those laid off through plant closings or shrinking; 2) the Trade Adjustment Assistance Act (TAA), spending $170 million through State Employment Security Agencies for those losing jobs due to increased imports; 3) the Defense Conversion Act, dispensing $150 million for those unemployed because of reduced defense spending; and 4) a program that allocates $50 million for those unemployed due to the enforcement of new clean air standards. New programs are in the pipeline -- one, for example, is intended to help the lumber industry in the Northwest.

Multiple programs aimed at common goals don't work well. Quite apart from the doubling and redoubling of administrative overhead costs, customers suffer. Because each program is intended to help people rendered jobless for different reasons, people seeking work must wait for help until the government determines which program they are eligible for. The process is slow. The General Accounting Office, for example, estimates that only a tenth of trade-eligible workers receive any benefits within 15 weeks of losing their jobs.*

To the unemployed, why they lost their jobs is less important than enrolling in training programs or finding another position. We urge strong support for the Labor secretary's proposed legislative changes to consolidate programs for workers who lose their jobs, regardless of the cause, use funds before rather than after workers lose their jobs, and ensure the services serve the customers.*

Sometimes duplication can make us ill, even kill us. Take the way we inspect food for contamination. Several agencies are involved, each operating under separate legislation, with different standards, and training their staff differently. In 1992, the Food and Drug Administration (FDA) devoted about 255 staff years to inspecting 53,000 food establishments, while the Food Safety and Inspection Service (FSIS)--part of the Agriculture Department--devoted 9,000 staff years to inspecting 6,100 food processing establishments.

But duplication doesn't mean that we cover every food processing company twice. Unfortunately, it means some activities fall through the bureaucratic cracks. Factories processing beef broth are inspected by FSIS *daily* while factories processing chicken broth may be visited by the FDA *once every three to five years.* Meat products must be inspected daily while shellfish, responsible for 21 percent of all food-borne illness, aren't even subject to mandatory inspection. If the FDA finds insanitary conditions, compliance is usually voluntary; the agency has no authority to close plants or impound products. If one agency refers a problem to another, follow up is at best slow and at worst overlooked.*

And with no fewer than 21 agencies engaged in research on food safety, often duplicating each other's efforts, we aren't progressing fast enough in understanding and overcoming life-threatening illness. As recent and fatal outbreaks of food-borne illness attest, multiple agencies aren't adequately protecting Americans.

Recommendation: ***The President should prepare and Congress enact legislation to create a single food safety agency.****

This new agency would handle all food safety regulations and inspection, spanning the work of the many different agencies now involved. This new Food Safety and Inspection Administration should require all food processing plants to develop Hazard Analysis Critical Points, or some other, equally rigorous, scientifically-based, system for identifying the danger points in the food processing plant where safety inspections should

Recommendation: ***The government should transfer the law enforcement functions of the Bureau of Alcohol, Tobacco and Firearms and the Drug Enforcement Administration to the Federal Bureau of Investigation.***

We also suffer from fragmentation and duplication in federal law enforcement. More than 140 federal agencies are responsible for enforcing 4,100 federal criminal laws. Most federal crimes involve violations of several laws and fall under the jurisdiction of several agencies; a drug case may involve violations of financial, firearms, immigration and customs laws as well as drug statutes. As a result, agencies squabble over turf, fail to cooperate, or delay matters while attempting to agree on common policies.

The broadest overlap is between the Treasury and Justice Departments. Treasury agencies such as the Bureau of Alcohol, Tobacco and Firearms and the U.S. Customs Service were originally created to collect revenues owed to the federal government, but their activities have expanded as anti-drug efforts have escalated.

Merging BATF and DEA into the FBI will create substantial savings--especially in administrative and support functions such as laboratories, legal services, training facilities, and in management overhead. Most important, the federal government will get a much more powerful weapon in its fight against crime. The merging of these operations will allow the consolidation of law enforcement training facilities. The regulatory and revenue functions of BATF should be merged, in Treasury, with the Internal Revenue Service. We do not need two different offices within a single agency issuing different regulations and collecting revenue.

Recommendation: ***Congress should enact legislation consolidating all border management activities into a single agency.****

The overlap of missions of Treasury's Customs Service and Justice's Immigration and Naturalization Service (INS) is not efficient. INS's job is to determine eligibility of people entering the U.S., while Customs is there to collect fees on imported goods. INS is responsible for preventing illegal border crossings on the ground, while Customs is responsible for preventing illegal border crossings if airborne. In addition, another 20 federal and state agencies have some responsibility for international security. Rivalry, ill-feeling, and duplication prevent the services from working together.

Reengineering to Create an Electronic Government

The history of this century's last years is being written on computer. But you wouldn't know it if you worked for many federal agencies. While private businesses have focus. Wherever possible, reporting should be automated so that high-risk foods and high-risk food processors can speedily be found. Enforcement powers should be uniform for all types of foods, with incentives built in for businesses with strong safety records.

Recommendation: ***The government should reduce the number of training programs.****

Several training programs offer similar services, through the same offices, and sometimes even with the same field staff. But each requires its own management and reporting systems. We can cut bureaucracy and enhance services to the customer by merging these programs into the Employment Training Administration (ETA).

Consider the case of the Veterans' Employment and Training Service (VETS). Local employment service offices have special staff dedicated to providing veterans with advice on training programs. But these staff are legally prohibited from serving non-veterans. So, if a local office is crowded with non-veterans, these specialists cannot help out--even if they have no veterans to serve. Moving VETS back under the ETA will generate much greater efficiency in the use of staff, leading to shorter lines and better service.

The Food Stamp Training Program also should be moved into the ETA. Most training under the program is already performed under contract by ETA staff, the Employment Service or local education institutions. Overall, ETA offers poor people a much more comprehensive range of job-seeking and training services than does the Food Stamp Training Program.

The government also has several different pension management systems. One will do. In 1935, Congress set up the Railroad Retirement Benefits system to protect railroad workers in the face of financial problems, to allow workers to transfer among railroads, and to encourage early retirement to create jobs for the millions of younger workers looking for jobs. In those days, there was no huge public pension system--Social Security was not yet in place. Today, we have Social Security, and the RRB system faces serious management problems.*

The government should transfer the responsibility for managing the Railroad Retirement Benefits system to the Social Security Administration. We will save **$xx** million each year by eliminating RRB field offices and through other management improvements.* And we also will protect the pensions of the tens of thousands of railroad workers.

spent the past two decades either getting rich developing applications of computer technologies for the workplace or frantically trying to keep up with these developments, government is still doing things as our parents, perhaps even our grandparents, would recognize.

Offshoots of the unexpected and fertile marriage between computers and telephones has changed just about everything we do--how we work, where we work, the design of the workplace, and the skills we need to hold jobs. We don't need as many people collecting information; computers can do much of it automatically. And we don't need as many people processing that information; clever software programs can, at the press of a button, keep managers up to date on all aspects of their operations.

Factories no longer must store piles of inventories. Smart machines on the assembly lines order components from equally smart machines working for suppliers. Yet government agencies stand guard over warehouses of office furniture. Companies can contract for services they once did "in-house"--overseeing contractors through computers connected to telephones. Yet government agencies still try to run everything themselves. Private companies guarantee the overnight delivery of letters anywhere in the United States. The post office cannot. Retailers ship the right size of clothing to customers as soon as they receive a telephone order and a credit card number. Yet we can't pay our taxes that way. We can get technical advice for our computers and software over the telephone 24 hours a day--by fax, modem, or voice. Yet we aren't offered such flexible responses to inquiries about disability benefits.

Our slow adaptation to the information age threatens all aspects of government. The State Department, for example, is a globe-spanning agency dependent on fast and accurate communications. Yet it is handicapped by equipment so old-fashioned that the Office of Management and Budget labeled it a high-risk area in which "worldwide systems could suffer from significant downtime and even failure."*

OMB worries that the department lacks personnel trained in communications systems who could figure out what the agency needs or how it could meet those needs, and that it has obsolete and incompatible systems, often forcing it to re-enter its data several times. These problems jeopardize our ability to meet our foreign policy objectives. If OMB worries, so should we.

Another example of slow adaptation to the electronic age is the federal government's continued use of checks. Electronic funds transfers have been in use for 15 years, at a cost of only 6 cents for a transfer compared with 36 cents for using a check. Yet each year, Treasury's Financial Management Service oversees the disbursement of some 440 million checks and 350 million electronic funds transfers.

We still pay about one federal employee in six by check and reimburse about half of travel expenses by check. Less than half of Social Security payments--which account for 60 percent of all federal payments--are made electronically, making SSA the world's largest check issuer. Only 42 percent of the Veterans Department's payments are made electronically. Fewer than one in five Supplemental Security Income payments and one in 10 tax refunds are transferred electronically.* We have only begun thinking about electronic funds transfers for welfare, Supplemental Security Income, and Food Stamps.

Private financial transactions have become a lot easier in the past decade: bank cash machines are open 24 hours a day, credit cards let us avoid carrying cash, and we can buy over the telephone. This saves us time and money. Government lags far behind. Consider the paper and paper chasing involved in running the welfare system. The Food Stamp program, alone, involves billions of bits of paper, thousands of years of administrative time. More than 2.5 billion food stamps are printed each year and distributed to 10 million households. Each month, 210,000 authorized food retailers receive the coupons in exchange for food. These retailers carry stacks of stamps to 10,000 participating financial institutions which then exchange them with Federal Reserve Banks for real currency. The Federal Reserve Banks count the food stamps--although they already have been counted more than a dozen times--and destroy them. The administrative costs of this system, shared equally by federal and state governments, is $400 million a year. This money could better go in increased benefits or reduced taxes.

Electronic Benefits Transfers could eliminate this paper chase, improve services to customers, and reduce fraud. At the same time, they could eliminate welfare checks, infant nutrition vouchers, Medicaid authorization cards, state general assistance checks, housing assistance checks, and all the other paperwork, record keeping and eligibility forms that clutter the welfare system.

Why has business moved faster than government? In the first place, government, as a monopoly, isn't driven out of business if it doesn't have the latest and smartest machines or the best approach to managing its resources. Many government employees are simply unaware of the advances by business in applying information technology. They are not trained in its use. Some bureaucrats simply do not want to know about labor saving approaches--they fear for their jobs if data collection, processing, and analysis is automated. Those that do want to modernize management have their hands tied with red tape and detailed budgets that deter investments. They may well know how to increase the productivity of their staff by purchasing new computers, but they cannot easily shift funds from one type of expenditure to another or carry money from one year to the next. Finally, there is a natural inclination--familiar to private and public managers alike--to do things as they've always been done.

What can we do to help our federal bureaucracy can catch up?

Recommendation: ***The Office of Management and Budget should upgrade its "information management" activities.***

We must overcome computer anxiety by committing the whole government to adopting information technology--not merely to catch up with the private sector, but to extend the application of new technologies into new areas. OMB must play a leadership role in helping all agencies to develop a coordinated and effective program to deploy telecommunications technology throughout the federal government.

OMB is already playing a crucial role in the introduction of electronic government. For example, the agency oversees the work of the electronic benefits transfer steering committee that was created in 1991. The National Institute of Standards must issue final standards and protocols for electronic funds transfers and the electronic approval of budget and financial documents. OMB's ability to coordinate would be enhanced if federal agencies designated a senior manager--at the deputy or assistant secretary level--to be responsible for telecommunications policy.

Recommendation: ***We urge the Department of Health and Human Services to speed the development of systems that will use electronic systems to transfer benefits to federal customers.****

The Health and Human Services Department accounts for 40 percent of the federal budget and, with its management of Social Security, Medicare, other trust funds and the welfare system, transfers more money to more people than any other agency. It has begun experiments with electronic benefits transfers. Food stamps, welfare checks, and child support, for example, are distributed electronically in Maryland and there are test sites in Iowa, Minnesota, New Mexico, Ohio, Pennsylvania, Texas, and Wyoming. We know that a joint federal-state effort to transfer welfare benefits electronically works--and works well. The system is strongly supported by recipients, the state welfare agencies, and participating commercial networks.

The system is simple. For cash programs, such as Aid to Families with Dependent Children, benefits are deposited directly into recipients' bank accounts; if they don't have bank accounts, these are created once the individual enrolls in a program. For "non-cash" programs such as Food Stamps, participants would have accounts through which they could make purchases at approved food stores--analogous to a credit card with a credit limit. Cash registers on the stores would debit accounts as eligible items were purchased. The system could operate on the existing private infrastructure through which funds are transferred electronically.

In the future, the concept of electronic government can go beyond transferring money and other benefits to issuing plastic, "smart" benefit cards. With the card, participants could make purchases of food (from their electronically maintained Food Stamp accounts), enroll in training programs, or pay for day care. The card would contain information about the individual's financial position as well as track his or her benefit accounts. Fraud would be minimized because wages and other financial transactions could be tracked easily. Electronic government will be fairer and more efficient than our present social services system. We estimate that we could save over $1 billion in administrative costs of the welfare system over the next five years

Barriers stand in the way. We have to create an equal partnership between state and federal governments in the costs of developing the system, and eliminate some regulations that would prevent this radical change in how government operates.

Recommendation: ***We encourage all federal agencies to fund experiments in electronic government.***

Opportunities abound for cutting operating costs by using telecommunications technologies. The National Performance Review has identified several projects that would help improve government's productivity and reduce the burden of reporting on individuals and businesses.

Together, the Labor Department and IRS should develop an automated processing system and a computer software program for distribution to all employers so that the pension plan forms employers must file under the Employer Retirement Income Security Act can be filed electronically.*

At present, it costs the Internal Revenue Service over $10 million to enter all these forms in its data base.

The Labor Department should develop computer programs to determine appropriate wages on federal service contracts.* Currently, all federal agencies contracting for services--from cleaning services to building management--must apply to the department for a determination of appropriate wages. The process is supposed to ensure that federal contracts don't undermine local prevailing wages. The process takes an average of 57 days and, with a growing number of service contracts, more and more are subject to delays.

We need to invest in the Social Security Administration's massive undertaking of creating a single nationwide disability processing system to modernize the uneven state disability determination services offices.* It will require considerable investments in new telecommunications and computer systems as well as staff training. It will also mean that SSA should be able to set performance targets for the state-run claims determination system. Many of the system's processing bottlenecks are in the state offices that must approve individual claims. Some states, which recognize the problem, are moving quickly enough to address it.

Sometimes, new appropriations will be needed. Some investments can be financed out of innovation funds, described in Chapter 2. And some investments will become possible as rigid budget regulations are relaxed. There are uncounted possible applications of telecommunications and computer technologies to delivering government services. Empowered employees undoubtedly will be a major source of new ideas.

Recommendation: ***Federal agencies should develop and market data bases to business.***

Federal agencies compiling and processing data should view their data as potential valuable resources. Congress alerted the bureaucracy to the value of information in 1991 by passing the American Technology Preeminence Act. The act required federal agencies to transfer to the National Technical Information Service copies of federally funded research. Some agencies have demonstrated the size of the potential market. NTIS has developed an aggressive marketing strategy that demonstrates the potential market for these resources and how a carefully planned pricing schedule can recover the costs of the federal operation.

For its part, the Census Bureau has pioneered efforts in making federal data available in forms that take advantage of computer technology; it was the first federal agency to make data available on CD-ROM. By 1992, the Bureau sold census data to 380,000 customers on tape or disc directly, and another 1.1 million customers were served through state data centers and other subsidiary distribution partners.

The Department of Commerce has developed and marketed the National Trade Data Bank to the growing number of American businesses involved in expanding global markets. Demographic data compiled by the Census Bureau is the basis of product and service marketing campaigns by many private companies, and reports collected by the National Technical Information Service help companies identify new products or new production technologies.

But federal agencies sometimes lag behind private data retailers in the services they offer their customers. People buying Census data must order it through paper order forms or by telephone during business hours--only 9 hours a day, 5 days a week. If private software companies offer 24-hour a day technical support, so should the Census.*

Many agencies are good at neither preparing those data bases for private users nor marketing them. "Scientists," a recent report concluded, "face major obstacles in finding out what data are available."*

Other agencies have not begun to exploit the potential of the information they collect as a matter of course. We encourage the Commerce Department, for example, to develop a manufacturing technology data bank that brings together information residing in the National Institute of Standards, the National Institute of Technology, the Defense Department, federal research laboratories, and other organizations. Commerce also should use its climate data as the basis for developing a National Environmental Data Index. Good data will be vital in solving the problems associated with global climate changes. The U.S. must be a leader in developing these information resources.

Statistical agencies will have more user-friendly and more marketable data if they cooperate more closely. The Census Bureau, Bureau of Economic Analysis, and Bureau of Labor Statistics collect most of the important federal numbers. But in doing so, they impose unnecessary burdens on business.

Recommendation: ***The Internal Revenue Service should let people pay taxes by credit card.***

The Customs Service lets people pay duties on imported goods by credit card. Americans should have the same convenient way to pay taxes. It will save people time and cut the IRS's processing costs.* Credit card companies point out, correctly, that, in the event of bankruptcy, this could convert back taxes from a non-dischargeable debt to a dischargeable one (?). Congress should amend the bankruptcy statute to prevent such a change. Our goal is to increase customer convenience, to create another way for people to avoid paying what they owe.

Reengineering to Use Cost-Cutting Tools

Our reinvented government will be able to cut costs by learning new ways of carrying out traditional federal duties. Like it or not, the federal government is intruding further and further into our daily lives, and it should learn to do so in less threatening ways. Negotiated rule making, for example, is a way to cut the cost of the growing number of rules and regulations that shape our daily lives; it involves interested parties directly in the process of designing and developing the rules. And alternative techniques for resolving disputes are much cheaper than traditional litigation.

Recommendation: ***Agencies should make greater use of negotiated rule making.****

To measure how the federal government affects our lives, we usually look at the size of the federal budget. We should, however, look at the tens of thousands of laws, rules, and regulations that Washington promulgates. For better or worse, government's rulemaking, even more than its appropriations, shapes our lives. A Rochester Institute of Technology study estimates that the economic cost of federal regulations is nearly $7,000 for every household in the nation--more than the average household pays in federal income taxes.*

Laws and rules form the foundation for our economic success. They define our rights, allow us to enforce contracts, and protect us from abuse, both by fellow citizens and our government. In fact, the economic and environmental differences between the U.S. and the former Soviet Union owe less to differences in natural resources than to the greater efficacy of our legal and regulatory systems.

But some aspects of our rulemaking don't work well. As rules extend into more and more complex areas of our environment, workplace safety, health, and social rights, their consequences--unintended and deliberate--also grow. And as those consequences grow, we have introduced more and more safeguards into the rule-making process. The result is not always what we want.

Hearings, reviews, revisions, more reviews, yet more hearings, and even more reviews have created a cumbersome, costly, and time consuming process. For example, because the Department of Health and Human Services has been slow to issue regulations on such vital areas as health care containment and the allocation of funds for the elderly and for children, states have had to introduce their own regulations. Without the benefit of federal guidance, some state regulations have been overturned when HHS eventually issues regulations, leaving states financially liable and subject to lawsuit for imposing excessive regulatory burdens on private companies.

Some new rules are bonanzas for lawyers, generating costly litigation. A lawyer recently described agencies writing rules to implement environmental, health, and occupational safety laws as finding "too frequently that their proceedings become a battleground for interest groups and other affected parties--in effect little more than the first round of the expected litigation."*

There are better ways to make rules. A small group of federal agencies have pioneered a process called negotiated rulemaking--a process recognized with passage of the *Negotiated Rulemaking Act of 1990.* We believe negotiated rulemaking--colloquially referred to as "reg-neg"--is a process every rulemaking agency should include as part of its policy arsenal.*

The process brings together agency representatives with affected groups informally, before draft regulations are issued and before all sides have formally declared war. Sometimes, the group meets with a formal mediator or "facilitator." The negotiators reach consensus on the regulation by evaluating their own priorities and making trade-offs. The negotiating process allows informal give and take that can never happen in court or in a public hearing. If agreement is reached, the agency can publish the proposed rule, accompanied by a discussion of the issues raised during negotiations, and often avoid costly litigation later.

When EPA applied "reg-neg" techniques to the issue of emission standards for wood burning stoves, it was able to put standards into effect two years faster, and with much better factual input, than would have been the case without negotiations; manufacturers of stoves, in turn, were able to begin retooling to meet standards without another two years of uncertainty.

"Reg-neg" means that agencies have to create special teams of bureaucrats focused on developing rules. That will demand greater flexibility in agency staffing and in management. That will require formal training.

Recommendation: ***Agencies should speed up their use of alternative dispute resolution techniques.***

Federal agencies need better ways to resolve disputes. Not surprisingly, the federal government, charged with enforcing thousands of difficult and sometimes controversial rules, gets into arguments--with other agencies, state and local governments, businesses, and citizens. People challenge its right to regulate what they do, they challenge its conclusion that they are not complying with federal rules, and they disagree over interpretations of terms of contracts.

Solving these disputes can be expensive, involving high-priced lawyers, clogging the courts and delaying actions. Each year, 24,000 litigation matters reach the 750 full-time attorneys employed by the Labor Department alone, mostly on issues involving wages and hours or occupational safety and health.*

Issues may be unresolved for years, delaying the implementation of important programs and preventing a lot of people from doing what they are paid to do.

In some cases, litigation is important: it interprets the law, sets important precedents, and serves as a deterrent to future wrongdoing. But in many disputes, no one really wins--and the taxpayer surely loses. It may be cheaper to resolve conflicts through new techniques known collectively as Alternative Dispute Resolution (ADR). These techniques include mediation (using a neutral third party), early neutral evaluation (using a neutral, often expert, person to evaluate the merits of both sides), factfinding (resolving disputes that arise over matter of fact, not interpretation), settlement judges (a mediator for disputes coming before tribunals), minitrials (a structured settlement process), and arbitration (a formal process conducted by someone acceptable to both sides).

Overcrowded courts are encouraging private litigants to use ADR. Private contracts often specify ADR to resolve disputes between the signatories. In 1990, Congress passed the Alternative Dispute Resolution Act, authorizing every federal agency to develop its own ADR policy. Some have; but some have dragged their feet. Those that have saved time and money and avoided generating ill will.

The Labor Department started a pilot program last year for OSHA and Wage and Hour regulation cases, and found it much quicker and cheaper and plans to use it more widely.* The Federal Deposit Insurance Corporation saved more than $400,000 with a single, small pilot program. EPA has tried it for Superfund cases on issues of who should pay, and how much, to clean up sites, and the agency likes the way it works. The Farmers' Home Administration has used ADR on foreclosure cases and has not only saved money but actually saved foreclosing on several families. This is the type of innovative way of doing things more efficiently and effectively that we believe should spread faster and further across the federal government.

Recommendation: ***The President should create a group in OMB to help agencies design and redesign programs.***[1]

In 1981, the House Banking Committee's chairman asked the Congressional Budget Office whether it knew of any studies to evaluate whether governmental loans were an effective policy tool. CBO did not. Thus, with no evidence that loan programs work, the federal government was lending hundreds of billions of dollars--and it continues to today. We are establishing programs with no information about their possible effectiveness, no guidance about alternative and better ways to achieve our objectives, and no ability to draw on the extensive, successful experiences in other countries, states, and localities that point up what works, and what doesn't.

Well intentioned policymakers and federal managers are continually making the same mistakes. No wonder we have so many loan programs with high delinquency rates and subject to fraud and abuse, or why few of the new programs we create to address new problems work well, or why we have so many frustrated federal employees. Reinventing flawed programs is not our goal.

In 1988, Congress anticipated this type of initiative. The public law that elevated the Veterans Administration to departmental status provided for establishing a National Commission on Executive Organization, patterned after the first Hoover Commission. Its charter would have included a requirement to "establish criteria for use by the President and Congress in evaluating proposals for government corporations and government-sponsored enterprises and subsequently overseeing their performance." [2]

The new commission could have been activated by Executive Order. It was not. We believe that a new Program Design Office, in the Office of Management and Budget, would help agencies in really reinventing government--encouraging innovation, remembering what works and why, and identifying the common flaws that condemn programs to failure. It would have several responsibilities including: reviewing and contributing to the design of new programs, evaluating current programs, comparing programs in different agencies, creating models for different types of programs (such as research contracts, loan programs, tax preferences, and regulations), and maintaining an updated list of successful programs (both in the U. S. and foreign countries, and at all levels of government).

The office would offer seminars and training programs on program design issues. It would set up pilot programs in one or two agencies to determine the best way to transfer the skills and information needed to design good programs. And the office would work with both the legislative as well as the executive branches--good programs, after all, must start with good legislation.

The office would be small, with no more than a dozen analysts. It would report to OMB's deputy director for management and would operate to support Congress and the agencies. It would have no regulatory or compliance responsibility.

file

OUTLINE OF LEGISLATION

NATIONAL SERVICE INITIATIVE

President Clinton's national service program will expand educational opportunity, reward individual responsibility, and build the American community by bringing citizens together to tackle common problems. The President's support for service extends from the youngest elementary students to our oldest citizens, and includes everything from part-time volunteer activities to full-time public service jobs.

The centerpiece of the President's initiative to support service is a new program to offer educational awards to Americans who make a substantial commitment to service. In addition to this program, which builds on the youth corps and demonstration programs of the National and Community Service Act of 1990, the National Service Trust Act includes:

- Extension and improvement of programs in the National and Community Service Act of 1990 that enhance elementary and secondary education through community service in schools, support after-school and summer programs for school-age youth, and fund service programs on college campuses.

- Support for the Civilian Community Corps, to provide service opportunities in areas adversely affected by defense cutbacks.

- Support for the Points of Light Foundation, to support volunteerism.

- Extension and improvement of VISTA and the Older American Volunteer Programs authorized by the Domestic Volunteer Service Act.

- Creation of a new Investment Fund for Quality and Innovation to support model service programs and activities designed to ensure the development of high quality national service programs.

NATIONAL SERVICE TRUST ACT

Focus of Service

■ National service must address unmet educational, environmental, human, or public safety needs. National priorities may be established within these areas.

■ National service must improve the life of the participants, through citizenship education and training.

■ Participants may not displace or duplicate the functions of existing workers.

Corporation for National Service

Structure

■ The national service program will be administered by a new government Corporation for National Service, created by combining two existing independent federal agencies, the Commission on National and Community Service and ACTION.

■ The corporation will be responsible for administering all programs authorized under the National and Community Service Act and Domestic Volunteer Service Act, including VISTA and the Older American Volunteer Programs. The Corporation will also fund training and technical assistance, service clearinghouses and other activities.

■ The investment division of the corporation will administer the new trust program and programs currently administered by the Commission on National and Community Service.

■ The operating division will administer programs currently run by the ACTION agency, including VISTA and the Older American Volunteer Programs.

■ Flexible and quality-driven personnel policies will include pay-for-performance and a 7-year limit on most tenures.

■ The Corporation may solicit and accept private funds.

Governance

■ The corporation will have an eleven-member volunteer Board of Directors appointed by the President and confirmed by the Senate. It will be bipartisan and include persons experienced in national service, experts in providing educational, environmental, human, or public safety service, and representatives of States.

■ The first Board members will be appointed primarily from the Board of Directors of the Commission on National and Community Service. Seven Cabinet secretaries will serve as non-voting ex-officio members.

■ The Board will approve grant decisions, develop the corporation's strategic plan, review other policy and personnel decisions, receive and act on reports from the Inspector General, supervise evaluations, and advise the Corporation on all issues.

■ A Chairperson of the Board and a Managing Director for each division will be full-time employees appointed by the President and confirmed by the Senate.

Oversight

■ An Inspector General will oversee programs to guard against fraud and abuse.

■ Programs must arrange for independent audits and evaluations, and may also be required to participate in national or state evaluations.

State Commissions

Structure

■ In order to receive a grant, each state must establish a commission on national service. The corporation will provide funding for the state commission.

■ Commissions will have 7 to 13 members appointed by the governors on a bipartisan basis. There must be at least one representative of national service programs, one representative of local governments, and one representative of local labor organizations on each Board. The remaining members of the Board will be selected from among representatives of community-based organizations, youth who participate in service, educators, business, or experts in the delivery of particular services. Not more than 25 percent of voting members may be state officials, although additional state agency representatives may sit on the commissions as non-voting ex-officio members. Commissions will elect their own chair.

■ A representative of the corporation will sit on each commission as a voting member and act as liaison between the commission and the corporation.

Duties

■ State commissions will be responsible for selecting programs to be funded under the state formula allocation, and in any competitive grant states may request.

■ State commissions must also design strategic plans for service in the states, recruit participants, and disseminate information about service opportunities.

■ State commissions may also support clearinghouses, training and technical assistance, and other initiatives to support service. They may not operate national service programs, but may use a portion of funds to support programs run by state agencies.

Transition

■ For a period of one year, existing state agencies may assume the responsibility of the state commissions.

■ The Corporation may approve an alternative agency in place of a commission at a state's request, if the agency ensures diverse participation in policy making.

Allocation of Funds

■ States submitting plans approved by the Corporation will receive one-third of funds according to a population-based formula and one-third on a competitive basis.

■ One-third of funds will be allocated directly by the corporation. Programs eligible for priority consideration include federal programs, national nonprofit organizations operating multiple programs or competitive grant programs, national service initiatives in more than one state and meeting priority needs, proposals to replicate successful programs in more than one state, professional corps, and innovative national service programs.

Programs

Goals

■ Programs must set measurable goals regarding the impact of the service on the community and on participants.

Eligibility

■ Programs eligible for national service designation include diverse community corps, youth corps, specialized service programs focusing on a specific community need, individual placement programs, campus-based service programs, programs that train and place service-learning coordinators in schools or team leaders in corps programs, intergenerational programs, national service entrepreneurship programs, and professional corps.

■ Programs may be run by non-profit organizations, institutions of higher education, local governments, school districts, states, or federal agencies.

■ Programs may not provide direct benefits to for-profit businesses, labor unions, or partisan political organizations, or involve participants in religious activities.

Selection

■ Selection criteria include quality (based on criteria developed in consultation with experts in the field), innovation, sustainability, and replicability of programs.

■ Past experience and management skills of program leadership, involvement of participants in leadership roles, and the extent to which the program builds on existing programs will also be taken into account.

■ Programs serving and recruiting participants from communities of need, including those designated as enterprise zones, community redevelopment areas, areas with high poverty rates, environmentally distressed areas, and communities adversely affected by decreased defense spending will also receive special consideration.

Funding

■ All participants will receive educational awards.

■ To develop programs, one-year planning grants will be available. To support national service participants, three-year renewable grants will be available for program expansion or replication.

■ Administrative costs will be limited to five percent of all grants other than planning grants.

■ Programs must pay 15 percent of the stipend and health care benefits in cash and 25 percent of other program costs receiving federal support. The 25 percent match may be in cash or in kind from any source other than programs funded under the National and Community Service or Domestic Volunteer Service Acts.

■ Federal funds must supplement, not supplant, state and local dollars.

Participants

Eligibility

■ Individuals may serve before, during, or after post-secondary education.

■ In general, participants may be age 17 or older. Youth corps participants may be age 16 or older.

■ Participants must be high school graduates or agree to achieve their GED prior to receiving educational awards.

Selection

■ Participants will be recruited and selected on a nondiscriminatory basis and without regard to political affiliation by local programs designated by states or the federal government.

■ A national or state recruitment system will help interested individuals locate placements in local programs. Information about available positions will be widely disseminated through high schools, colleges and other placement offices. A special leadership corps may be recruited, trained, and placed to assist in the development of new national service programs.

Term of Service

■ To earn an educational award, a participant one year of full-time or two years of part-time service in a program designated by a state or the federal government. An individual may serve up to two terms and earn up to two educational awards.

Educational Awards

■ Educational awards of $5,000 will be provided for a term of service. Educational awards may be used to repay loans for higher education or to pay for higher education or training.

■ Educational awards will be federally funded and deposited into a national service trust on behalf of all participants accepted into the program. Organizations and individuals may donate funds to support national service participants in the donor's community.

■ Payments will be made directly to qualified post-secondary educational institutions, including two- and four-year colleges, training programs, and graduate or professional programs.

■ In the case of participants with outstanding loan obligations for qualified educational activities, awards will be paid directly to lenders.

■ Awards will not be taxable and must be used within five years of receipt.

Stipends

■ Programs will set stipends within program guidelines. However, federal support will be limited to a match of 85 percent of an annual stipend equivalent to benefits received by VISTA volunteers. Programs may provide additional stipends up to twice this amount, with no federal match for the portion of the stipend in excess of the VISTA benefit.

■ In the limited case of designated professional corps in areas of great need, such as teaching and public safety in underserved areas, participants may be paid a salary in excess of the guidelines and receive an educational award. However, no federal support will be available for a stipend, and professional corps will be selected on a case-by-case basis directly by the Corporation.

Health and Child Care

■ All participants without access to health insurance will receive health coverage. Federal dollars will pay up to 85 percent of the cost of these benefits.

■ Participants will receive child care assistance, if needed.

Serve-America

The proposal extends and expands the existing Serve-America program for school-age youth and Higher Education Innovative Projects for Community Service. Modifications to these programs are described below.

Service-Learning Program

Program Goals

- To build a foundation for service among the nation's youth, inspiring them to serve and instilling in them the values and attitude to serve effectively after graduation.

- To create opportunities for all American children to serve our country.

Types of Programs

- Programs may be partnerships of local education agencies and community-based organizations.

- Local educational agencies may receive planning grants to hire service-learning coordinators.

Types of Funding

- School-based programs will be eligible for funding through state educational agencies, partly based on formula and partly through competition.

- State educational agencies must develop state plans that indicate programs to be funded and detail 3-year strategies for service-learning in their states. The Corporation must approve state plans.

- Programs may receive one-year planning grants for school-based programs. Subgranting to experienced institutions for school-based programs will also be allowed.

- All local programs will be required to provide at least 10 percent of total program costs in the first year of funding, increasing to 50 percent in the fourth. Local programs may utilize other federal education funds to meet the match requirement.

Training and Technical Assistance

- Clearinghouses will be expanded to further enable them to disseminate information and curriculum materials; train teachers, service sponsors and participants; and provide needs assessments or technical assistance.

- States will also receive additional resources to train and educate state educational personnel.

Community-based Program for School-Age Youth

- Community-based organizations working with school-age youth may receive grants from the State Commission for programs to involve such youth in community service.

- National non-profit organizations may apply to the Corporation to make subgrants or run multi-state community-service programs for this population.

Higher Education Innovative Projects

- Higher Education institutions, consortia of such institutions, or partnerships of higher education institutions and non-profit institutions may receive grants from the Corporation for student community-service programs or programs to train teachers in service-learning methods.

- Funds may supplement College Work-Study funds being used for community service placements.

Extension of the Domestic Volunteer Service Act of 1973

The proposal extends and expands VISTA and Older American Volunteer Programs authorized by the Domestic Volunteer Service Act. Following a transition period, these programs will be administered by the corporation for national service.

VISTA

- Extends authority for the VISTA program and increases number of VISTA volunteers.

- Authorizes new VISTA Summer Associate program.

- Authorizes a University Year for VISTA program to encourage student volunteer efforts addressing the needs of low-income communities.

- Removes restrictions limiting the flexibility to manage VISTA, while reaffirming commitment to recruiting a diverse group of VISTA volunteers including young and older adults.

- Increases post-service stipends by $30 for each month of service. Such stipends are not available if VISTA volunteer accepts an educational award under the national service trust.

- Continues support for VISTA Literacy Corps.

Special Volunteer Programs

■ Provides broadened authority under the Special Volunteer Programs to supporting demonstrations and innovations, provide technical assistance, and promote other entrepreneurial activities. Eliminates specific authority for student community service and drug programs, which are covered under the broadened demonstration authority and under the National and Community Service Act.

Older American Volunteer Programs

■ Renames the Older American Volunteer Programs as National Senior Volunteer Corps and the Retired Senior Volunteer Program as the Retired and Senior Volunteer Program (RSVP).

■ Lowers eligibility age for participation in the RSVP program to 55.

■ Clarifies that Foster Grandparents may work with children with special and exceptional needs in Head Start programs, schools, and day care centers.

■ Provides for a new demonstration authority to enrich and strengthen older American volunteer programs across the country.

■ Eliminates restrictions that limit the flexibility to administer the program.

■ Increases the stipend for low-income Foster Grandparents and Senior Companions once over the next five years to account for inflation.

Administration

■ Encourages relationships between ACTION and other federal agencies where ACTION volunteers might help further the purposes of other Federal programs.

■ Authorizes a Center for Research and Training on Volunteerism to strengthen volunteer programs across the country.

■ Provides a technical amendment to restore the crediting of VISTA service for federal pensions.

■ Provides copyright protection for the programs authorized under the Act.

SUMMER OF SERVICE

FROM THE WHITE HOUSE OFFICE OF NATIONAL SERVICE AND THE COMMISSION ON NATIONAL AND COMMUNITY SERVICE

FOR IMMEDIATE RELEASE
May 6, 1993

CONTACT: Diana Aldridge
(202) 456-6444
Melinda Hudson
(202) 724-0600

WHITE HOUSE OFFICE OF NATIONAL SERVICE AND COMMISSION ON NATIONAL AND COMMUNITY SERVICE ANNOUNCE PROGRAMS FOR "SUMMER OF SERVICE"

1,500 Young People to Serve in U.S. Communities Throughout the Summer

WASHINGTON, D.C. At a press conference today, representatives of the White House Office of National Service and the Commission on National and Community Service announced the program winners for the President's Summer of Service initiative.

The Summer of Service program is a project initiated by the President and administered by the Commission that will engage approximately 1,500 young people (ages 17-25) in directly serving the educational, health, public safety and environmental needs of children at-risk in urban and rural locations across the country this summer.

The sixteen program winners announced at the event will administer Summer of Service projects in Atlanta; Baltimore; Boston; Los Angeles; Oakland/East Bay; New Orleans; Newark and New York City; Philadelphia; Delaware, Ohio; and Red Lake, Minnesota.

The programs include innovative partnerships of municipalities, universities, community organizations, youth corps programs, health care facilities, and environmental organizations. The programs will recruit young people to serve throughout the summer engaged in activities that will include immunizing children; tutoring and mentoring young students; providing housing assistance for homeless families; revitalizing urban landscapes and school playgrounds; and testing for lead paint.

(more)

"Summer of Service will give young people the opportunity to serve their country in meaningful and immediate ways," said Eli Segal, Assistant to the President and Director of the White House Office of National Service. "The response to this program, like the response to the President's call to service during his campaign, speaks to the real desire of young people to be a part of the renewal of their country."

Initiated by the White House as a first step toward the President's vision of a national service network, Summer of Service will demonstrate the potential of national service to provide tangible and measurable community benefits; to develop national service leaders; and to unleash the talents and energies of young Americans eager to make a difference in their communities.

Interest in Summer of Service has been extraordinary. The President announced the initiative during his speech on national service at Rutgers University on March 1. Within a month, the Commission on National and Community Service received more than 430 grant applications from programs in every state and several territories. Additionally, thousands of young people wrote to the President directly, supporting his vision and offering to serve.

Summer of Service will be administered by the Commission on National and Community Service, an independent, bipartisan federal agency established by Congress in 1990 to renew the American ethic of service and civic responsibility.

"Summer of Service program winners have been selected for their quality, their clearly defined and measurable effects upon important issues affecting children at-risk, and for their potential to develop service leaders for the future," said Catherine Milton, Executive Director of the Commission. "These programs will serve as a foundation for an effective, high-quality network of national service."

Summer of Service will begin with one week of service and leadership training for all participating young people, followed by an intensive eight weeks of service, culminating with a summit.

National service will not be just a summer exercise. For those who wish to continue to serve their communities beyond the summer, the Commission will assist participants in finding year-round, full-time service placements. To build upon the enthusiasm and creativity of the summer programs, the Commission will award up to fifteen Service Entrepreneurial Awards for Change (SEA Change) to participants who want to develop new, innovative year-round service programs.

(more)

SUMMER OF SERVICE PROGRAM WINNERS
1500 YOUNG PEOPLE TO SERVE IN SIXTEEN PROGRAMS

ATLANTA:

o **HANDS ON ATLANTA, INC.**
Contact: Michelle Nunn (404) 872-2252

o **CLARK ATLANTA UNIVERSITY**
Contact: Bill Denton (404) 880-8493
Karen Wood (404) 522-4222
Tom Hallman (404) 880-8493

BALTIMORE:

o **MPOWER, The Maryland Summer of Service**
Contact: Terry Chase (301) 405-7599
Ermette Williams-Purce (301) 405-5751

BOSTON:

o **CITY YEAR**
Contact: Michael MacCrystall (617) 451-0699
Magda Escobar (617) 451-0699

o **TUFTS UNIVERSITY**
Contact: Robert Hollister (617) 672-3453
Jay Chrepta (617) 627-3500

LOS ANGELES:

o **IT'S ABOUT HEALTH**
Contact: Dr. Gwen Van Servellen (310) 825-4321

o **BUILDING UP: Summer of Service in Los Angeles**
Contact: Martha Diepenbrock (213) 749-3601
Jennie Hyun Kim (310) 206-3346
Marc Litchman (310) 433-7686

OAKLAND/EAST BAY:

o **EAST BAY CONSERVATION CORPS**
Contact: Joanna Lennon (510) 891-3900

NEW ORLEANS:

o **NEW ORLEANS SUMMERBRIDGE**
Contact: Jay Altman (504) 896-8594
Rosemary James (504) 586-1609

NEWARK:

- **NEWARK SUMMER OF SERVICE**
  Contact: Cassie Miller (201) 648-5421
  Joel Bloom (201) 596-6476
  Jennifer Price/Jessica Phipps (201) 242-2300

NEW YORK CITY:

- **TEACH FOR AMERICA**
  Contact: Richard Barth (212) 228-1043

- **NEW YORK ACORN**
  Contact: Jon Kest/Jennifer Anderson (718) 693-6700

- **HARLEM FREEDOM SCHOOLS PROJECTS**
  Contact: Geoffrey Canada (212) 866-0700
  Gerald Lewis (212) 866-0700

PHILADELPHIA:

- **ICARE (Immunize Children At-Risk Early)**
  Contact: Jeff Moran (215) 686-3042

DELAWARE, OHIO:

- **OHIO WESLEYAN UNIVERSITY**
  Contact: Todd Wilson (614) 368-3337

RED LAKE, MINNESOTA

- **SUMMER OF SERVICE PROJECT: RED LAKE BAND OF CHIPPEWA INDIANS**
  Contact: Gerald Brum, Eugene McArthur (218) 679-3341

***

BACKGROUND ON SUMMER OF SERVICE

o On March 1, 1993, in a speech at Rutgers University, the President outlined his vision for National Service. Last week in New Orleans, he unveiled the first part of that vision -- a legislative initiative creating a National Service program. By reforming the student loan system and offering increased educational opportunity, the program will make it easier for every American to afford college. In return, National Service will demand responsibility from Americans for rebuilding our country and our communities -- city by city, neighborhood by neighborhood, block by block.

o A second aspect of the President's vision of National Service is the "Summer of Service" -- an immediate initiative designed to meet critical needs of at-risk children this summer, while at the same time building future National Service leaders.

o This effort will involve approximately 1,500 young people (ages 17-25) across the country in serving the educational, health, public safety and environmental needs of children at-risk.

o The Commission on National and Community Service, which is responsible for implementing the Summer of Service, received more than 430 grant applications from community service organizations in all 50 states and three territories. The White Office of National Service received more than 6,000 letters expressing interest in the program.

o The Office of National Service and the Commission will announce on Thursday, May 6, 1993, sixteen Summer of Service grant recipients from across the country. The programs range from a primary healthcare project for children at-risk, to a low-income housing safety inspection and smoke detector installation project, to a middle school tutoring and mentoring program. Groups that receive grants will then recruit and select the young people to serve in these programs. All of the initiatives will demonstrate the tangible and measurable community benefits that can result from National Service.

o Summer of Service will kick off with a national leadership training week during the third week of June. All of these young national service pioneers will gather in one location and learn by doing. By going out into the community and serving, these leaders will learn what it takes to serve and make a difference. They will be trained by leaders from such programs as the Peace Corps, Outward Bound, Youth Build and Boston's City Year and learn how to bring their national training experience home to the communities in which they live.

o The summer will end with a Summit on Service hosted by the President where he and the service pioneers will meet to discuss the challenges of the summer and lay future plans for National Service.

5/5/93

MEMORANDUM

COUNCIL OF ECONOMIC ADVISERS

February 1, 1993

TO: LAURA D'ANDREA TYSON

FROM: JONATHAN WIENER JBW

SUBJECT: **National Service and the "City Year" example**

Developing National Service: How we might help

After our brief discussion this morning, I made initial contact with the Office of National Service (Eli Segal's office) and offered our help. Segal's staffer, Kate Frucher, told me that right now they are engaged in three activities: organizing their office, identifying existing federal service programs, and drafting legislation.

Drafting legislation will require the development of program concepts, analysis of the social and economic implications of different options, and translation of chosen options into legal language. National Service programs could affect (in different ways) cities and communities, labor markets and labor unions, schools, businesses, families, and government budgets.

CEA could help analyze these socioeconomic issues and contribute to the drafting of smart, creative legislation. We could assist in economic analysis of the costs and benefits of service and of the interplay with markets for labor and education; and in legal analysis of the types of programs that might be designed. Moreover, based on my work in community service, I could bring some knowledge of what community service is, how it best flourishes, and how to stimulate entrepreneurial approaches nationwide. As described in my memo to you of January 21, I have worked for some time with "City Year" (see below), I founded "Class Act," and I helped organize the first "DC Servathon."

I will keep in contact with Segal's office. It does not appear that any interagency group yet exists to help Segal's office perform the analytic tasks noted above. You might suggest that he call on a small group of key staffers to help address these issues.

"City Year": A Possible Model

Attached are the materials I promised you this morning about "City Year," the service corps in Boston that has been mentioned as a model for the President's national service initiative. I worked with City Year starting in 1989, and I just visited again a week ago.

In my view, City Year offers several innovative features that could help make national service a success, including diversity, local organization, private funding. By design, its 200+ corps members come from every ethnic, racial, and income background; City Year is intentionally organized to build trust and cooperation across social divides. City Year is a nonprofit organization, not a government agency, and until it won federal matching funds last year, it was entirely funded by private businesses and foundations. City Year is now planning to expand to several new cities and become a national service organization.

Among the features of City Year that I find attractive for National Service are:

- Inclusive citizenship; diversity. A primary function of National Service should be to reach all sectors of society, bringing together people of all ethnic, racial, and income/wealth backgrounds in common service. The goal is to teach trust and cooperation, and make diversity our strength. City Year succeeds -- at not only delivering services but also attracting community enthusiasm and financial support -- because it offers a vision of American reunion. Senior service could complement youth service.

- An ethic of civic commitment. City Year tells its young corps members that they are the leaders of today, not tomorrow; that they are the resource, not the client; that they can make a difference. It insists on total commitment and high quality work. National Service would eventually be a part of every American's growth, a real life experience in the American dream of democracy, achievement and responsibility.

- Entrepreneurship; reinventing government. National Service need not be a leviathan federal employment program, monolithic and cumbersome; nor a simple extension of the military; nor a grab-bag of disparate, highly local untested programs. It should be an opportunity to reinvent public entrepreneurship: the federal government should foster a marketplace in which many different service concepts compete. The government should act like a source of venture capital, investing in diverse creative ventures at the local, regional and federal level. Institutional successes like Scouting, City Year, Teach for America, and the Nature Conservancy suggest that investments in national as well as local nonprofit groups can be fruitful.

- Public-private collaboration; leveraging. Service programs should be co-funded by private businesses and foundations. Cost sharing helps spread the costs beyond the federal budget. It helps the government identify which programs are truly meritorious, and ensures that a bottom-line-conscious investor is at hand to monitor performance. It also invites the private sector to be part of the ethic of civic commitment -- contributing to the community through support for local service programs. Private citizens could also donate to the National Service Trust Fund, which would fund post-service awards.

- Flexible awards, based on performance. In return for providing a period of service, corps members would receive a service award from the National Service Trust Fund. The award could be in cash, or in some form of voucher applicable to useful enterprises such as vocational training, college loan repayment, or small business start-up credit. Requiring that service come before the award would avoid the problem of loan recipients who then default on their service obligations. Letting the service award be applicable to a variety of uses would avoid the problem of recruiting only those who need loans for college.

I would be happy to provide you further information on "City Year" or other aspects of National Service.

CC: AB, TO'D

LDT
Action. Jon Baker
Jonathan W
ASB
JES
TPO'D

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

September 2, 1993

MEMORANDUM FOR DESIGNATED AGENCY HEADS
(SEE ATTACHED DISTRIBUTION LIST)

FROM: Robert G. Damus RGD
Acting General Counsel

SUBJECT: Proposed Executive Order Entitled "Reinventing Government"

Attached is a proposed Executive order entitled "Reinventing Government."

It was submitted by the National Performance Review, in accordance with the provisions of Executive Order No. 11030, as amended.

On behalf of the Director of the Office of Management and Budget, I would appreciate receiving any comments you may have concerning this proposal. If you have any comments or objections, they should be received no later than 10:00 a.m. Friday, September 3, 1993. Please be advised that agencies that do not respond by the September 3, 1993 deadline will be recorded as not objecting to the proposal.

Comments or inquiries may be submitted by telephone to Mr. Mac Reed of this office (Phone: 395-3563; Fax: 395-7294).

Thank you.

Attachments - Distribution List
Proposed Executive Order

cc: Alice Rivlin
Chris Edley
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Administrator
National Aeronautics and Space Administration

Honorable Laura D. Tyson
Chair
Council of Economic Advisers

Honorable Bernard W. Nussbaum
Counsel to the President

Honorable John Podesta
Assistant to the President
and Staff Secretary

Honorable Jack Quinn
Chief of Staff to the Vice President

EXECUTIVE ORDER

- - - - - -

REINVENTING GOVERNMENT

WHEREAS, putting people first requires public officials to embark upon a revolution within the federal government to change fundamentally the way it does business; and

WHEREAS, this will require continual reform of the Executive Branch's management practices and operations to provide service to the public that matches or exceeds the best service available in the private sector; and

WHEREAS, to achieve this goal, Congress passed the Government Performance and Results Act earlier this year;

WHEREAS, the Vice President has directed a National Performance Review to examine how well the government serves its citizens, where it can improve, and where it is necessary to make fundamental changes;

WHEREAS, the National Performance Review has presented its findings and recommendations to reinvent government by making comprehensive changes across the Executive Branch;

THEREFORE, to establish and implement more effective and efficient leadership and management principles throughout the Executive Branch as identified in the National Performance Review, and by the authority vested in me as President by the Constitution and the laws of the United States, including section 301 of title 3, United States Code, it is hereby ordered:

Section 1. Customer Service For the People. (a) Customer Service Standards. In order to carry out the principles of the National Performance Review, the Federal Government must be customer-driven. The standard of quality for services provided to the public shall be: Customer service equal to the best in business. All agencies that provide significant services directly to the public shall provide those services in a manner that seeks to meet this standard and shall take the following actions:

(1) Identify the customers that should be served by the agency;

(2) Survey customers to find out what kind and quality of services they want and their level of satisfaction with existing services;

(3) Post service standards and measure results against them.

(4) Benchmark performance against the best in business.

(5) Survey front-line employees on barriers to, and ideas for, matching the best in business.

(6) Provide customers with choices in both the sources of service and the means of delivery.

(7) Make information, services and complaint systems easily accessible.

(8) Correct poor services.

(9) Handle inquiries and deliver services with courtesy.

(10) Provide pleasant surroundings for customers.

(b) Report on Customer Service Surveys. By March 8, 1994, each agency shall report on its actions in carrying out customer surveys in accordance with subsection (a)(1), (a)(2) and (a)(5) to the President's Management Council established in Section 3. As information about customer satisfaction becomes available, each agency shall use that information as a key criteria in judging the performance of agency management and in making resource allocations.

(c) Customer Service Plans. By September 8, 1994, each agency that provides significant services directly to the public shall publish a customer service plan that can be readily understood by its customers. The plan shall include initial customer service standards and describe future plans for customer surveys. It shall also identify the private and public sector standards that the agency is using initially to benchmark its performance against as the best in business. In connection with the plan, agencies are encouraged to provide training resources for programs needed by employees who directly serve customers and by managers making use of customer survey information to promote the principles and objectives contained herein.

Section 2. Implementation of Reinventing Government Principles. (a) Establishing Chief Operating Officers. Each Department and Agency Head shall designate a Chief Operating Officer (COO), who shall be the Deputy or another official with agency-wide authority. The COO shall report directly to the Department or Agency Head and shall be responsible for:

(1) implementing the President's and agency head's priorities and the agency's mission;

(2) providing overall organizational management to improve agency performance;

(3) assisting the Secretary or Administrator to promote ongoing quality improvement, develop strategic plans and measure results;

(4) directing ongoing reengineering of the agency's administrative processes;

(5) overseeing agency-specific application of performance measures, procurement reforms, personnel reductions, financial management improvements, telecommunications and information technology policies, and other government-wide systems reforms adopted as a result of the recommendations of the National Performance Review; and

(6) reforming the agency's management practices by incorporating reinventing government principles and practices into day-to-day management.

(b) Identifying Additional Reforms. The head of each Executive Department or Agency is directed to identify additional opportunities to make changes within the respective Department or Agency that will promote the principles identified in the National Performance Review and the strategic and quality management approaches described by the "Presidential Award for Quality."

Sec. 3. President's Management Council. (a) Establishment. There is established the President's Management Council ("The Council"). The Council shall advise and assist the President in ensuring that the Executive order and the reforms adopted as a result of the National Performance Review are implemented throughout the Executive Branch.

(b) Membership. The Council shall comprise the:

(1) The Deputy Director For Management, Office of Management and Budget;

(2) The Chief Operating Officers from the following agencies:

(A) Department of State;

(B) Department of the Treasury;

(C) Department of Defense

(D) Department of Justice

(E) Department of the Interior;

(F) Department of Agriculture;

(G) Department of Commerce

(H) Department of Labor

(I) Department of Health and Human Services;

(J) Department of Housing and Urban Development'

(K) Department of Transportation;

(L) Department of Energy;

(M) Department of Education;

(N) Department of Veterans Affairs;

(O) Environmental Protection Agency;

(P) National Aeronautics and Space Administration;

(3) Heads of the following central management agencies:

(1) The Director of the Office of Personnel Management;

(2) The Administrator of the General Services Administration

(4) Chief Operating Officers of three other Executive Branch agencies designated by the Chairperson;

(5) The Secretary of the Cabinet; and

(6) Such other officials of Executive departments and agencies as the Chairman may, from time to time, designate.

The Deputy Director for Management of the Office of Management and Budget shall serve as Chairperson of the Council.

The Chairperson of the Council shall appoint a vice-chairperson from the Council's membership to assist the chairperson in conducting the affairs of the Council.

(c) Executive Committee. There is established an Executive Committee of the Council. Members of the Executive Committee are: The Chairperson, The Vice Chairperson, two Chief Operating Officers from the agencies, and the heads of central management agencies specified in subsection (b)(3). The President may, from time to time, designate additional members of the Council to serve on the Executive Committee.

(d) Meetings of the Council. The Chairperson shall convene regularly scheduled meetings of the Council which shall be held at least once a month. The Chairperson may also call ad hoc meetings of the Council.

(e) Responsibilities and Functions. The President's Management Council shall assist and advise the President and Vice President by acting as the implementing board for management of reinventing government reform across the Executive Branch. It shall oversee the implementation of reforms adopted a result of the recommendations of the National Performance Review and the President's and Vice President's other reinventing government initiatives. The Council is accountable to and will report directly to the President and Vice-President.

The functions of the Council shall include, among others:

(1) improving overall Executive Branch management, including reform of government-wide management systems, such as management controls, financial management, personnel, budgeting,

procurement, and information technology, consistent with the priorities established by the President and Cabinet;

(2) Coordinating management-related efforts to reinvent government by the Executive Branch and, as necessary, resolving specific inter-agency management issues;

(3) Ensuring the adoption of new management practices in agencies throughout the Executive Branch; and

(4) Identifying examples of, and providing mechanisms for interagency exchange of information about best management practices.

(f) Administration. (1) The Council shall be provided with appropriate staff support as may be necessary to carry out the provisions of this Order.

(2) The Director and staff of the Federal Quality Institute shall serve as a resource to the Council.

(3) The President's Management Council shall seek advice and information as appropriate from nonmember Federal agencies, particularly smaller agencies. The Council shall also consider the management reform experience of corporations, non-profit organizations, state and local governments, government employees, public sector unions, and customers of government services.

(4) All Executive departments and agencies shall cooperate with the Council and provide such assistance, information, and advice to the Council as the Council may request, to the extent permitted by law.

Sec 4. Independent Agencies. Independent agencies are requested to adhere to this order.

Sec 5. Judicial Review. This order is for the internal management of the Executive Branch and does not create any right or benefit, substantive or procedural, enforceable by a party against the United States, its agencies or instrumentalities, its employees, or any other person.

THE WHITE HOUSE,