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FROM REORGANIZATION TO RECRUITMENT: BRINGING THE FEDERAL GOVERNMENT INTO THE 21ST CENTURY

HEARING

BEFORE THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

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FROM REORGANIZATION TO RECRUITMENT: BRINGING THE FEDERAL GOVERNMENT INTO THE 21ST CENTURY

THURSDAY, MARCH 6, 2003

HOUSE OF REPRESENTATIVES,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The committee met, pursuant to notice, at 10:05 a.m., in room 2154, Rayburn House Office Building, Hon. Tom Davis (chairman of the committee) presiding.

Present: Representatives Tom Davis of Virginia, Shays, McHugh, Jo Ann Davis of Virginia, Platts, Putnam, Schrock, Miller, Janklow, Blackburn, Waxman, Maloney, Cummings, Kucinich, Davis of Illinois, Tierney, Clay, Watson, Lynch, Ruppersberger, Norton, and Cooper.

Staff present: Peter Sirh, staff director; Melissa Wojciak, deputy staff director; Keith Ausbrook, chief counsel; Ellen Brown, senior legislative counsel; John Callender, counsel; David Marin, director of communications; Scott Kopple, Mason Alinger, and Edward Kidd, professional staff members; Teresa Austin, chief clerk; Joshua E. Gillespie, deputy chief clerk; Jason Chung, office manager; Brien Beattie and Michael Layman, staff assistants; Phil Barnett, minority chief counsel; Kate Anderson and Althea Gregory, minority counsels; Denise Wilson, minority professional staff member; Earley Green, minority chief clerk; Jean Gosa, minority assistant clerk; and Cecelia Morton, minority office manager.

Chairman TOM DAVIS. Good morning. I would like to welcome everybody to the inaugural oversight hearing of the Government Reform Committee of the 108th Congress.

Today's hearing will set the stage for many of the issues that we hope to address in this committee over the next few years. What I would like, if we can have Members' forbearance, if we have an opening statement, to get it in the record, try to limit the opening statements today to Mr. Waxman and myself and the ranking members of the Subcommittee on Civil Service. Everyone else's statement will go into the record. Then, as we go through questions, you can weave your statement, if you want to do that. But any statement will go in the record that you would like to put in.

We are here today to discuss a report that was issued earlier this year by the National Commission on the Public Service, also known as the Volcker Commission, named after the chairman of the Commission, Paul Volcker. Chairman Volcker brings 30 years of Federal service to discussion, serving in five Presidential administra-

tions, including his most noteworthy appointment as chairman of the Federal Reserve System under both Presidents Carter and Reagan.

Chairman Volcker has agreed to come before this committee today to present the Commission's findings, and he has brought with him a distinguished group of dedicated public servants who serve with him on the Commission. Accompanying Chairman Volcker are Frank Carlucci, who served as Secretary of Defense under President Reagan, in addition to a number of other high-level appointments, and Donna Shalala, the former Secretary of Health and Human Services under President Clinton and a former president of a university of thousands of students.

In February 2002, Chairman Volcker announced that he would be chairing the National Commission on the Public Service, a group of long-time public servants who share a concern that the current structure of government would not be able to meet its obligations in the 21st century. The purpose of the Commission was to take a year to analyze research and data and marry it with the experience and expertise of the members of the Commission, to set out an agenda for renewal and reform of the public service.

Chairman Volcker chaired a similar commission 13 years prior, and believed that the acute need for renewal and reform of the public service was even more essential today. A year later, after hearing testimony from dozens of highly respected organizations, the Commission issued its final report calling for sweeping changes in organizational structure and personnel incentives and practices. The report made a compelling case for change by documenting the organizational chaos that pervades our Federal Government and detailed the degradation of the notion of public service in recent decades.

In response to the dire critique of the state of affairs in government, the Volcker Commission presented a set of 14 recommendations that will, hopefully, help us address some of these issues that are all too familiar to public servants. I will let the members of the Commission discuss their recommendations in further detail in their own words.

A number of these recommendations are similar to recommendations made in 1989 by the National Commission on the Public Service. Unfortunately, that suggests we may face significant challenges in implementing these seemingly logical recommendations. I would like to hear from Chairman Volcker and other members as to what challenges we should expect in trying to implement the recommendations.

I also look forward to hearing from our witnesses in the context in which they arrived at the conclusions they made. The Commission is composed of 11 of the most-distinguished public servants you could ask for from both sides of the aisle. We will be interested to hear about the debates that took place regarding the various recommendations and findings in the report, and I look forward to discussing a strategy for possible next steps with our witnesses.

I am very much interested in pursuing all of these recommendations in order to improve the economy and efficiency of the Federal Government, making Federal employment a more attractive career option for our Nation's youth.

[The prepared statement of Chairman Tom Davis follows:]

Opening Statement of Chairman Davis
Hearing on "From Reorganization to Recruitment:
Bringing the Federal Government Into the 21st Century"
Committee on Government Reform
March 6, 2003 at 10:00 a.m.
2154 Rayburn House Office Building

Good morning. I would like to welcome everyone to the inaugural oversight hearing of the Government Reform Committee in the 108th Congress. Today's hearing will set the stage for many of the issues that we hope to address in this Committee over the next few years.

Today, we are here to discuss a report issued earlier this year by the National Commission on the Public Service, also known as the "Volcker Commission," named after the Chairman of the Commission, Paul Volcker. Chairman Volcker brings thirty years of federal service to the discussion, serving in five presidential administrations, including his most noteworthy appointments as Chairman of the Federal Reserve System under both Presidents Carter and Reagan.

Chairman Volcker has agreed to come before this Committee today to present the Commission's findings, and he has brought with him a distinguished group of dedicated public servants who served with him on the Commission.

Accompanying Chairman Volcker are: Frank Carlucci, who served as Secretary of Defense under President Reagan in addition to a number of other high level appointments in the public service; Donna Shalala, former Secretary of Health and Human Services under President Clinton and former president of a university of over 40,000 students; and Richard Ravitch, who has spent a career in many federal, state and local government operations in both New York and Washington, D.C.

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I am very much interested in pursuing all of these recommendations in order to improve the economy and efficiency of the federal government – making federal employment a more attractive career option for our Nation's youth.

Chairman TOM DAVIS. I would now like to recognize Mr. Waxman, the ranking member of the Committee on Government Reform.

Mr. WAXMAN. Thank you very much, Mr. Chairman. I would like to thank you for holding this hearing. This is an important issue that merits careful consideration by this committee.

I also want to thank you and your staff for your willingness to work collaboratively with the minority staff on the hearing. I am hopeful that the spirit of bipartisanship continues and that we can really accomplish something in this Congress.

I would like to welcome the witnesses today and thank you for taking the time to appear before us. All of you have had distinguished careers in public service and are uniquely qualified to speak to the challenges facing the Federal Government.

Reforming the Federal Government is an issue of great importance. There are some parts of government that are not effective, not efficient, and need to be changed. However, there are many parts of government that are good and should be valued and preserved. The task before our committee is, thus, a daunting one: how to reform government, yet still retain those features that work.

In my mind, the best part of the Federal Government is the millions of dedicated men and women who work for us every day. Last July, Tom Friedman, a columnist with the New York Times, wrote eloquently about the virtues of our civil servants. He said, "Our Federal bureaucrats are to capitalism what the New York police and fire departments were to 9–11, the unsung guardians of America's civic religion, the religion that says, if you work hard and play by the rules, you'll get rewarded and you won't get ripped off. . . . So much of America's moral authority to lead the world derives from the decency of our government and its bureaucrats, and the example we set for others. . . . They are things to be cherished, strengthened, and praised every single day."

I would like to put Mr. Friedman's column in the record in its entirety and encourage all members of the committee to read it when they have an opportunity.

Chairman TOM DAVIS. Without objection, so ordered.

[The information referred to follows:]

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SECTION: Section 4; Page 13; Column 1; Editorial Desk

LENGTH: 761 words

HEADLINE: In Oversight We Trust

BYLINE: By THOMAS L. FRIEDMAN

BODY:

Several years ago an Indian journalist friend of mine, who was working in Indonesia, remarked to me that corruption in the Indonesian bureaucracy was so endemic that when he paid a bribe to renew his residency permit, the Indonesian official he paid off actually gave him a receipt for his bribe so my friend could be reimbursed by his newspaper. For anyone who has worked abroad, such stories are not unusual. But they are also a useful prism for examining the epidemic of corporate cheating now wracking America.

Here's why: I don't blame President Bush for any accounting fraud at WorldCom or Enron. I blame him for something more important. You see, what really distinguishes American capitalism from most other countries' is not that we don't have C.E.O. crooks, but others do, or that we never have bogus accounting, bribery, corruption or other greedy excesses, but others do. No, we have all the same excesses that other capitalist nations have, because fear and greed are built into capitalism.

What distinguishes America is our system's ability to consistently expose, punish, regulate and ultimately reform those excesses -- better than any other. How often do you hear about such problems being exposed in Mexico or Argentina, Russia or China? They may have all the hardware of capitalism, but they don't have all the software -- namely, an uncorrupted bureaucracy to manage the regulatory agencies, licensing offices, property laws and commercial courts.

Indeed, what foreigners envy us most for is precisely the city Mr. Bush loves to bash: Washington. That is, they envy us for our alphabet soup of regulatory agencies: the S.E.C., the Federal Reserve, the F.A.A., the F.D.A., the F.B.I., the E.P.A., the I.R.S., the I.N.S. Do you know what a luxury it is to be able to start a business or get a license without having to pay off some official?

Sure, we have our bad apples, but most of our bureaucrats are pretty decent. In fact, our federal bureaucrats are to capitalism what the New York Police and Fire Departments were to 9/11 -- the unsung guardians of America's civic religion, the religion that says if you work hard and play by the rules, you'll get rewarded and you won't get ripped off.

Which is why I find Mr. Bush's constant denigrating of "the bureaucracy" so offensive. After his own E.P.A. issued a report in June linking fossil-fuel use to global warming, Mr. Bush dismissed the study by saying that he "read the report put out by the bureaucracy," as if that explained why it couldn't be credible.

During the campaign, on Nov. 1, 2000, Mr. Bush, in one of his many trashings of the federal bureaucracy then and since, declared: "The I.R.S. just announced they're going to hire an additional 2,079 bureaucrats. My opponent talks about fighting for the people against the powerful. But it works out a little differently under his plan. In his case, more audits for people, more power for the I.R.S. And that's the heart of his agenda: a fundamental belief in the federal government, a lack of trust and faith in ordinary Americans. . . . I trust people; he trusts the government."

That is the real George Bush -- a man who trusts his C.E.O. cronies more than the bureaucratic regulators who oversee them. And that's why he brought in the Harvey Pitts of the world to weaken that oversight.

Well, count me among those naive fools with a fundamental belief in the federal government -- not because I have no faith in ordinary Americans, but because I have no trust in ordinary Big Oil, ordinary Enron or ordinary Harken Energy to do the right thing without proper oversight.

If our markets are rattled right now and foreigners

are starting to wonder, it isn't just because people are worried about WorldCom or Enron. It's because they're worried about the S.E.C. and the I.R.S. They are worried about the unique American software, designed to regulate the whole system, being undermined by people who have no real respect for it.

What triggered the 489-point one-day rise in the Dow last week? It was word that Congress had agreed on a plan to create a new independent oversight board for the accounting industry. Reading the polls, Mr. Bush is suddenly all for it.

Good. Maybe now he'll appreciate that so much of America's moral authority to lead the world derives from the decency of our government and its bureaucrats, and the example we set for others. These are not things to be sneered at by a president. They are things to be cherished, strengthened and praised every single day.

http://www.nytimes.com

LOAD-DATE: July 28, 2002

Mr. WAXMAN. The basic framework of the Federal Government dates back to the 1950's, after the Hoover Commission proposed a sweeping reorganization. At that time there was no Medicare or Medicaid, no EPA or NIH, no terrorism threat within our borders. Today our society is more complex, and the Federal Government needs to ensure that it has the tools to serve the needs of the American people.

For the Federal Government to perform the complex functions now entrusted to it, the government needs to recruit, train, and retain highly skilled workers. The report we are considering today contains ideas for how we can achieve these goals. These ideas and others need careful consideration by Congress.

One thing is certain, though: the government won't be able to attract and retain top people if it abrogates the fundamental protections of the civil service. Indeed, the report discusses the importance of safeguarding the essential rights of public servants, including merit hiring, nondiscrimination, protection from arbitrary personnel actions, and freedom from political interference. The report also states that, "Engaged and mutually respectful labor relations should be a high Federal priority."

Having been a public servant for the last 35 years, I believe there is no more fulfilling profession than working for the government and helping to improve the lives of all Americans, particularly those less fortunate. It is troubling, then, to read in the report, "The notion of public service, once a noble calling proudly pursued by the most talented Americans of every generation, draws an indifferent response from today's young people and repels many of the country's leading private citizens."

We must all work to change this attitude. I look forward to working with Chairman Davis and the members of the Volcker Commission on this important issue. Thank you.

[The prepared statement of Hon. Henry A. Waxman follows:]

Record

Statement of Rep. Henry A. Waxman
House Government Reform Committee Hearing on Volcker Commission

March 6, 2003

Mr. Chairman, I'd like to thank you for holding this hearing. This is an important issue that merits careful consideration by this Committee. I also want to thank you and your staff for your willingness to work collaboratively with the minority staff on this hearing. I'm hopeful that this spirit of bipartisanship continues and that we can really accomplish something in this Congress.

I'd like to welcome the witnesses and thank you for taking the time to appear today. All of you have had distinguished careers in public service and are uniquely qualified to speak to the challenges facing the federal government. I'd especially like to welcome Donna Shalala, who I very much enjoyed working with during her eight years at HHS.

Reforming the federal government is an issue of great importance. There are some parts of government that are not effective, not efficient, and need to be changed. However, there are many parts of government

that are good and should be valued and preserved. The task before our Committee is thus a daunting one – how to reform government yet still retain those features that work.

In my mind, the best part of the federal government is the millions of dedicated men and women who work there everyday. Last July, Thomas Friedman, a columnist with the *New York Times*, wrote eloquently about the virtues of our civil servants. He said: "[O]ur federal bureaucrats are to capitalism what the New York Police and Fire Departments were to 9/11 – the unsung guardians of America's civic religion, the religion that says if you work hard and play by the rules, you'll get rewarded and you won't get ripped off. . . . [S]o much of America's moral authority to lead the world derives from the decency of our government and its bureaucrats, and the example we set for others. . . . They are things to be cherished, strengthened and praised every single day."

I ask that Mr. Friedman's column be included in the record and encourage all members of the Committee to read it.

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"Engaged and mutually respectful labor relations should be a high federal priority."

Having been a public servant for the past 35 years, I believe there is no more fulfilling profession than working for the government and helping to improve the lives of all Americans, particularly those less fortunate. It is troubling, then, to read in your report that: "The notion of public service, once a noble calling proudly pursued by the most talented Americans of every generation, draws an indifferent response from today's young people and repels many of the country's leading private citizens."

We all must work to change this attitude. I look forward to working with Chairman Davis and the members of the Volcker Commission on this important issue. Thank you.

Chairman TOM DAVIS. Thank you very much. Mrs. Davis.

Mrs. DAVIS OF VIRGINIA. Thank you, Mr. Chairman. I would like to start by thanking Chairman Paul Volcker and the other witnesses from the National Commission on Public Service for joining us today, and especially for their work in assembling their provocative report, "Urgent Business for America."

I also want to acknowledge the hard work of organizations, including the Brookings Institute, the Council for Excellence in Government, the National Academy of Public Administrators, the GAO, the Office of Personnel Management, and several others who assisted the Commission on this work.

Your timing couldn't be better. As we begin our work in the 108th Congress against the background of the new Homeland Security Department opening its doors for the first time, the issues that you raised in your report which go to the fundamental questions of how the government is organized, how it is managed, and how its employees are hired, promoted, and paid, have taken on an urgency not seen in many years.

I see the Volcker Commission report as a guidepost for Congress as we begin our journey of reforming the Federal Government. On both sides of the Capitol we have teams of lawmakers in place who take civil service and government reorganization efforts very seriously and who are determined that this important report does not merely collect dust on the shelves of Congress.

As the new chairwoman of the Subcommittee on Civil Service and Agency Organization, I intend to pursue with an open mind several issues raised by your work, particularly those recommendations dealing with pay, hiring, recruitment, and reorganization, through subcommittee hearings, and I am hopeful that you, Chairman Volcker, and other members of the Commission will be available to testify at those hearings and to share your knowledge with us as we consider legislation.

This will be a bipartisan, bicameral effort. Good government is not a Republican, nor is it a Democrat issue. Good government is popular government. It is effective government. That is what all of us want: a government that is agile enough to protect its citizens and to provide its needed services.

Once again, Chairman Volcker, and the rest of the panel, I thank you for your time. I am very interested to get to the question-and-answer period, so that we can discuss the many interesting proposals contained in your report.

With that, Mr. Chairman, I thank you.

[The prepared statement of Hon. Jo Ann Davis follows:]

From the Office of
Congresswoman
Jo Ann Davis

Opening Statement
House Government Reform Committee hearing, "From Reorganization to Recruitment: Bringing the Federal Government Into the 21st Century"
March 6, 2003

I want to begin by thanking Chairman Paul Volcker and the other witnesses from the National Commission on Public Service for joining us today, and especially for their work in assembling their provocative report, "Urgent Business for America."

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Once again, Chairman Volcker and the rest of the panel, I thank you for your time. I am very interested to get to the question-and-answer period, so that we can discuss the many interesting proposals contained in your report.

#####

Chairman TOM DAVIS. Now I would like to recognize the ranking member on the Civil Service Subcommittee, Mr. Davis from Illinois.

Mr. DAVIS OF ILLINOIS. Thank you, Mr. Chairman. Mr. Chairman, the fact that the first full committee hearing convened under your leadership focuses on civil service reform signals the importance of this issue for you and for this committee. As ranking member of the Civil Service and Agency Organization Subcommittee, I look forward to working with you, Representative Waxman, and Representative Jo Ann Davis, chairwoman of the subcommittee.

In the last 2 years the call to reform the civil service has grown. The Senate has held numerous hearings on civil service reform. Since 2001, the General Accounting Office has put government operations and human capital needs on its governmentwide high-risk list. A Connecticut businessman gave $25 million to launch the Partnership for Public Service, a nonprofit organization whose goal is to revitalize the public service, and well-regarded research institutions, like the Brookings Institute, the Council for Excellence in Government, the National Academy of Public Administration, and the Kennedy School of Government, have issued briefing papers and held forums on how to reform the Federal Government.

This is not the first time, however, that attempts have been made to reform the Federal Government and its work force. The National Performance Review and the Contract with America Initiatives come to mind. But timing is everything and it appears that now is the time to make constructive changes to the Federal civil service and how it operates.

Yes, there are overlapping jurisdictions, a conundrum of rules and regulations, pay inequities, and government operations that are outdated and outmoded. To effectively reform Federal operations in the work force, we must first understand the logic and reasoning behind the outdated and outmoded rules and regulations. If not, we are destined to reform everything and improve nothing.

The Civil Service Act of 1883, the Pendleton Act, was enacted to remove partisan political influences from the selection and retention of civil servants. In 1923, the Classification Act was passed to provide a systematic means of placing the right person in the right job and paying comparable salaries for comparable work. The Equal Employment Opportunity Act of 1972 resulted in full and equal opportunity in hiring, training, and promotions.

The Civil Service Reform Act of 1978 changed and streamlined civil service laws to do what many are calling for now, to give managers the tools and freedom to manage, and it gave Federal employees incentives to be more productive. The Whistleblower Protection Act was enacted to investigate and prosecute prohibited personnel practices, waste and mismanagement, and political activity.

There was a reason, a need, for the aforementioned legislation, and unless the problems that led to the creation of that legislation have disappeared, there is still a need for those laws. If there are new problems and concerns that demand our attention, we should address them. However, we need to be cognizant of what we are reforming and why, and what the implications for the Federal Government will be.

The members of the Volcker Commission are well-regarded and well-respected in their areas of expertise. I look forward to their testimony and how it can help the Federal Government to do a better job for the taxpayers and its employees.

I also look forward to working with my colleagues, Federal employee unions, research organizations, and others, as we journey together to improve the efficiency and effectiveness of the Federal Government and place a higher premium on civil servants.

I thank you, Mr. Chairman, and yield back the balance of my time.

[The prepared statement of Hon. Danny K. Davis follows:]

Record

Danny K. Davis

STATEMENT OF CONGRESSMAN DANNY K. DAVIS AT

COMMITTEE ON GOVERNMENT REFORM

HEARING

ON VOLCKER COMMISSION'S RECOMMENDATIONS FOR

REFORMING THE FEDERAL GOVERNMENT

Thursday, March 6, 2003

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hearings on civil service reform: since 2001, the General Accounting Office has put government operations and human capital needs on its government-wide high-risk list: a Connecticut businessman gave $25 million dollars to launch "The Partnership for Public Service," a non-profit organization whose goal is to revitalize the pubic service: and well regarded research institutions like the Brookings Institute, the Council for Excellence in Government, the National Academy of Public Administration, and the Kennedy School of Government, have issued briefing papers and held forums on how to reform the federal government.

This is not the first time, however, that attempts have

been made to reform the federal government and its workforce. The National Performance Review and the Contract with America initiatives come to mind. But timing is everything and it appears that now is the time to make *constructive* changes to the federal civil service and how it operates.

Yes, there are overlapping jurisdictions, a conundrum of rules and regulations, pay inequities, and government operations that are outdated and outmoded. To *effectively* reform federal operations and the workforce you must first understand the logic and reasoning behind the outdated and outmoded rules and regulations. If not, we are destined to reform everything and improve nothing.

The Civil Service Act of 1883 (the Pendleton Act) was enacted to remove partisan political influences from the selection and retention of civil servants. In 1923, the Classification Act was passed to provide a systematic means of placing the right person in the right job and paying comparable salaries for comparable work. The Equal Employment Opportunity Act of 1972 resulted in full and equal opportunity in hiring, training, and promotions.

The Civil Service Reform Act of 1978 changed and streamlined civil service laws to do what many are calling for now, to give managers the tools and freedom to manage, and it gave federal employees incentives to be

more productive. The Whistleblower Protection Act was enacted to investigate and prosecute prohibited personnel practices, waste and mismanagement, and political activity.

There was a reason, a need, for the aformentioned legislation, and unless the problems that led to the creation of that legislation have disappeared, there is still a need for those laws. If there are new problems and concerns that demand our attention, we should address them. However, we need to be cognizant of what we are reforming, and why, and what the implications for the federal government will be.

The members of the Volcker Commission are well

regarded and well respected in their areas of expertise. I look forward to their testimony and how it can help the federal government do a better job for the taxpayers and its employees.

I look also look forward to working with my colleagues, federal employee unions, research organizations, and others, as we journey together to improve the efficiency and effectiveness of the federal government and place a higher premium on civil servants.

Thank you.

Chairman TOM DAVIS. Thank you, Mr. Davis.

If there is no objection, with unanimous consent, everyone else's statement will go in the record, and we will get right at it.

Ms. Norton.

Ms. NORTON. Mr. Chairman, if I could make a statement?

Chairman TOM DAVIS. We tried to move it so that we can get—otherwise, everybody makes a statement and they sit here all morning.

Ms. NORTON. Mr. Chairman, if you are saying that you would like us not to make a statement, then I would defer to you. There is another issue that has not been raised, and I would like to be able to put it on the table.

Chairman TOM DAVIS. Sure.

Ms. NORTON. Because I do welcome the fresh eyes of the Volcker report and I want to thank you for the recommendations. I do want to lay on the record that I believe that as important as structure and operations are, is the human crisis capital that the Federal Government is facing. And I am on the Select Committee on Homeland Security. Today I think most Americans would feel fairly secure with respect to our defense operations abroad, but would not feel nearly as secure with respect to security at home. That is partly because they know that at home they are not, in fact, dependent mostly on the military; they are dependent mostly on civil servants, on people that guard the borders, on people who sit in government agencies.

Almost half this work force can retire within 3 years. There is a very jittery work force here. I went to the Ronald Reagan Building last Friday, when the President came before those civil servants to reassure those coming into the Homeland Security Department that their future was not at risk.

The reason that I bring this up and want to lay it on the table, especially since I am not going to be here for this entire hearing, is because, if in fact half the work force can retire within 3 years, that means the most senior people, the people in whom the Federal Government has invested the most, the most valuable people when it comes to security at home.

I am at least as interested in that as I am in the operations and the structure of the Federal Government. I have a great interest in the structure of the Federal Government. When I came to run an agency of the Federal Government, it was among the most troubled agencies in the government. I am very, very sympathetic to the notion of the need to improve management when you are dealing with the largest employer in the country, but there are huge problems.

We had to fight, a big fight, for pay parity between military and civilian workers last year. Even though it is civilian workers that people are looking to to protect them at home, we may have another huge fight this year. We keep having these fights.

We had an important downsizing of the work force in 1990. We have a growth in political appointments. We have a growth in contracting out. If employees keep seeing this, we are going to chase out of the government the people we most need to protect the people of the United States of America.

Thank you, Mr. Chairman.

Chairman TOM DAVIS. Thank you.

If there are no other statements, I would like to now go to our witnesses. It is the policy of the committee that all witnesses be sworn in before they testify.

[Witnesses sworn.]

Chairman TOM DAVIS. Thank you.

To afford sufficient time for questions, Mr. Volcker, if you could limit your time to just a few minutes, I think we have read the statement and we have questions ready to go, but we would like you to sum up, and then we will give Mr. Carlucci and Ms. Shalala an opportunity to speak, and then we will go right to questions. Thank you.

STATEMENTS OF PAUL A. VOLCKER, CHAIRMAN, NATIONAL COMMISSION ON THE PUBLIC SERVICE; FRANK C. CARLUCCI, MEMBER, NATIONAL COMMISSION ON THE PUBLIC SERVICE; AND DONNA SHALALA, MEMBER, NATIONAL COMMISSION ON THE PUBLIC SERVICE

Mr. VOLCKER. Thank you, Mr. Chairman and members of the committee. I am delighted that you have called this hearing, and I am, obviously, delighted to hear the indications of support for a change and that the time may be right.

This is a difficult subject. It doesn't always attract a lot of attention, but we, obviously, think it is terribly important. That is reflected in the colleagues that are here today, representative of the Commission generally.

I do want to just mention that sitting behind me are Paul Light, who was, in a sense, the father of this in his work at Brookings in public administration, and Hannah Sistare, who is our indispensable staff leader who will be with us a while longer. I think they are part of this, a very big part.

You have our report, and I won't read my statement. I assume the report will be made part of the record and my statement will be made part of the record.

Chairman TOM DAVIS. Absolutely.

Mr. VOLCKER. As you know, it is rather brief as these reports go. It doesn't purport to be a detailed blueprint of legislation or change, but it does purport to give a strong sense of direction as to where we should be going, and it does suggest some very immediate steps that could be taken by this committee and elsewhere to get the process going.

We came at this from, obviously, a feeling which is widely shared that there is too little sense of instinctive trust in the Federal Government, that there has been an erosion of trust I think in all institutions, but it is particularly dangerous when it includes the Federal Government, and there is a lot of evidence that is true.

It is not only true by people outside the government, but there is a lot of evidence that it has been true of people inside the government, which I think really suggests that time has come for reform. The frustration and dissatisfaction within the government, as well as outside the government, is quite clear.

I would simply summarize the report by saying, what started out as a feeling of a need for change in personnel systems primarily, and more flexibility in personnel systems, quickly evolved into our

thinking that, while that was necessary, it had to be part of a major reorganization of the executive branch.

Quite coincidentally, as we were thinking along this line, the proposal, was made for a Department of Homeland Security, which in philosophical terms, anyway, reflected some of the same concerns and objectives that are in our report: the need for greater consolidation of related and overlapping agencies, brought together in an environment of more administrative flexibility and personnel flexibility, but with strong political leadership.

So that is the core, without repeating everything in my statement, of the report. The core of our concerns is a reorganization of the government. It has been called for before. We think the urgency and the direction now is clearer, combined with more disciplined management, strong political direction, but a more flexible personnel system. All of that puts a large burden on oversight by the Office of Personnel Management, by the Office of Management and Budget, and by the Congress itself.

So this is a process for years literally, but what is important is to get it started. I think this committee has a particularly key role in that respect.

What we would like to see, what we have proposed, is some enabling legislation, in effect, putting particular organizational proposals of the President on a fast track in the Congress. There are precedents for that in this area; there are precedents for that in other areas. We think it is very difficult to get progress without that kind of legislative arrangement, and that, obviously, is an area for this committee to take leadership.

We do have other suggestions that are complementary to that. The question of effectiveness in appointment of political officials has been a recurrent theme of all the examinations of government, I think: the length of time that it takes, the inefficiencies in that process. We repeat recommendations that have been made by many other inquiries earlier and by the Congress itself. I must say that we suggest that it might be even more efficient and more effective if there were less political appointees in total than, in fact, there are.

The question of pay arises at the top level. That is an area that has been getting some attention. We were particularly impressed by the urgent need for action with the judiciary, where the case was put to us very forcibly by those responsible for the operation of the judiciary in this country. Pay has lagged for judges to a degree that it does risk, the quality of judicial appointments and the judiciary system, and that certainly is something that should receive your attention.

I would only add that, in making rather sweeping proposals, we have been assisted not only by our own experience and our own small staff, but we have been joined by a number of organizations that do research in this area and have a deep interest in public administration over a period of time. That is all reflected in the report that you have before you.

So we come before you not just, I think, as an opinion of 12 people, which I take seriously because I think a lot of experience is represented here, but it is kind of a culmination of a lot of thinking and research in the whole community of public administration.

So I will just leave it with those comments and be delighted if my two colleagues could speak as well.

[NOTE.—The report of the National Commission on the Public Service entitled, "Urgent Business for America, Revitalizing the Federal Government for the 21st Century," may be found in committee files.]

[The prepared statement of Mr. Volcker follows:]

Testimony of Paul A. Volcker
Chairman
National Commission on the Public Service
Before the House Government Reform Committee

March 6, 2003

"Creating a Government for the 21st Century: From Reorganization to Recruitment"

Mr. Chairman, Members of the Government Reform Committee, on behalf of the National Commission on the Public Service, I thank you for holding this very timely and important hearing on the needs of our 21st Century government. My colleagues who are here with me today from the Commission - Secretary Donna Shalala, Secretary Frank Carlucci and Richard Ravitch - and I appreciate the opportunity to discuss the recommendations of our Commission and hope that they will be helpful to the Committee in its important work.

I ask that our full report, "Urgent Business for America," be made part of the hearing record. This morning, I would like to speak briefly to what motivated our efforts and the overall thrust of our recommendations. I will also cite some first step actions that we believe should be taken, because we recognize that accomplishing our central recommendations will be the work of many years.

Our Commission was born out of a shared concern that the erosion of public trust in government had reached the point where it was undermining our national health and security. This was evident not only among the public, but also within government, where there was a measurable sense of frustration and dissatisfaction. A group of men and women of varied political persuasions, each with many years of public service, volunteered to come together for a year to consider what recommendations we would make for reform and renewal. We were able to set this goal because of the prior research and assistance of many organizations and individuals that had expertise in this area. Those providing us with information and advice are listed in the Acknowledgement at the beginning of the report and the Appendix at the end.

Somewhat contrary to our own expectation at the start of our deliberations, the Commission concluded that a really sweeping reorganization of the Federal government is required to meet the challenges of the 21st Century.

We started by focusing on what we saw as the government's formal and generally rigid personnel structure, incorporated in the outdated General Schedule and job classification system. The evidence is clear of inadequate recruiting, inability to attract those with specialized skills, scrimping on job and professional training, and inability to appropriately reward high performance. We made recommendations for improvements in each of these areas

However, in the earliest stages of our discussions, it also became evident that better personnel practices alone would not be enough. Human resources would need to be married to new patterns of organization, providing the clarity and cohesion essential to effective performance.

Nothing could have more dramatically made the point that a basic reorganization of government was imperative than the events of September 11. Despite large organizations and heavy expenditure, we were not able adequately to foresee and forestall a massive threat to internal security. Some of our most elite agencies, hamstrung by their own bureaucracies and organizational boundaries, had failed to cooperate.

Our report goes into some detail about the evidence of mission overlap and duplication and bureaucratic layering. The impact on federal employees themselves was demonstrated in a series of studies done by the Center for Public Service at the Brookings Institution. I have brought copies of the full study for the Committee's use. In sum, it demonstrates that employees become demoralized in the absence of mission clarity or when they feel unable to contribute effectively to their agency's mission.

When the mission is unclear and morale is down, performance suffers.

So our first and most sweeping recommendation is that the federal government be reorganized into a more limited number of mission-related executive departments. Political appointees, responsible for the overall policy direction would head these reorganized departments. The administrative work of the department would be performed by operating agencies, headed by skilled managers, with sufficient flexibility to manage according to the needs of that agency.

We recognize that needed flexibility in administration will require appropriate and effective oversight by policy makers in

the Executive, by a strengthened Office of Personnel Management and Office of Management and Budget, and by the Congress itself. Surely, the traditional and essential protection against discrimination and political interference with administrative personnel should remain, together with efforts to encourage labor-management collaboration.

We do not underestimate the difficulty of these tasks or the political and bureaucratic obstacles. Done well, it will be the work of years. It will not get done at all without careful planning, without congressional cooperation and participation, and without an agreed framework for expediting consideration of particular proposals.

For these reasons, and because many of our other recommendations will also take time and effort, we suggested a series of interim steps toward implementation.

First, there is a crucial measure within the jurisdiction of this Committee. We believe progress will require that the President be given expedited authority to recommend structural reorganization of federal departments and agencies. Within the legislative framework, we envision particular reorganization proposals being developed by the Executive branch, with Congress and non-governmental interests in close consultation. Once a proposal is sent to Congress, we recommend that it be given an up or down vote within a limited period of time.

Second, we recommend a cooperative effort by the President and the Congress to improve the presidential appointments process. This should include legislation to simplify and streamline financial reporting requirements. Members of the Commission, drawing on their own experiences, are also agreed that substantially fewer, rather than more, political appointees would better serve the interests of a President and an Administration in effective policy development and control.

Third, we recommend an immediate and significant increase in judicial, executive and legislative salaries. We recommend that judicial and executive salaries be related to positions of comparable responsibility in the non-profit sector. A similar point can be made for Congressional salaries, but an early decision on judges, where the rational is crystal clear, should not be held hostage to the politically charged question of appropriate pay for political officials. For the rest of government, we recommend that pay be sensitive to market conditions.

Fourth, we encourage Congress, OPM and federal agencies in their efforts to simplify and modernize recruitment of federal employees.

And finally, we suggest that the Congress and the Administration tap the resources and expertise of non-governmental public service organizations, many of which assisted us in our work. We believe it would be helpful for a continuing advisory board of such organizations to be established to assist in this process and to encourage continuing reform.

Again, I thank the Committee for its interest and attention.

Chairman TOM DAVIS. Well, thank you. Ms. Shalala, would you like to make any additional comments? Thanks a lot for being here.

Ms. SHALALA. The recommendations that we are making here, which are structural and governmental reform recommendations, have everything to do with who we can attract to serving government. I have spent half of my career at very high-level positions, except as a Peace Corps volunteer, in government and the other half leading major institutions of higher learning in this country. In my judgment, our ability to recruit and retain a new generation of what I believe are extraordinary young Americans to government, who are going to be more diverse and more talented than any generation that we have had in the past, has everything to do with these kinds of reforms. They want to come into a government in which they have an opportunity to be successful and participate in decisionmaking at the highest level.

I have served in government on the Democratic side, but I have also observed leaders of government on the Republican side. In both cases I have been in government where civil servants were never allowed in the room under Democratic and Republican administrations when major decisions were being made. During my tenure I never made a major decision in which only political appointees were in the room because I knew well that, unless senior civil servants who had most of the information were in the room, and they brought the junior people that did much of the work into the room, we would not be able to either recruit or retain them.

Let me give you another example. When I came into government, the National Institutes of Health, the Director of the NIH had less authority to hire people and to reorganize NIH than the dean of any major medical school in this country. The bureaucratic systems for recruiting scientists, even though the kinds of people that he was recruiting were exactly the same kinds of people that were being recruited at our major universities for research positions as well as research administration positions, there was much less authority for that individual. Now we made some changes, with bipartisan support, about that authority.

But these recommendations have everything to do with recruiting and retaining people for our most important scientific agencies: the National Science Foundation, the FDA, the CDC, and the NIH. Therefore, the connection between structure and personnel is clearly there.

Thank you very much.

[The prepared statement of Ms. Shalala follows:]

Prepared Statement of
The Honorable Donna Shalala
The National Commission on the Public Service
Before the House Government Reform Committee
March 6, 2003

Mr. Chairman, Members of the Committee: First, I want to join our Chairman Paul Volcker in thanking the committee for holding this hearing. I entered public service as a Peace Corps volunteer, just out of college. From then, to my time as Assistant Secretary of HUD in the Carter Administration, to my service as Secretary of HHS during the Clinton Administration, to today, I have seen the demands on the federal government become more and more challenging. Unfortunately, I have also seen the ability of government to live up to these challenges become severely strained.

Paul Volcker has talked about the Commission's proposal that the executive branch of government be reorganized and the reasons behind it. I will outline our concept for the operational level of these new mission centered departments.

Each of the new mission-centered departments would be composed of the agencies tasked with contributing to that mission. Programs with similar objectives would be combined in the same agency. Policy direction and oversight of performance would come from political appointees at the department level. Each agency would be run by a skilled manager who could come from the career service, or a political background, and might be appointed for a term of years. These decisions would depend on the particular circumstances and needs of that agency. Importantly, subject to specific criteria, the agency heads would be granted the ability to adopt the organizational structure and personnel system that best fit the agency's operating needs. The criteria that we recommend be set out in statute or established by executive directive are:

-Clear program objectives
-Performance specifications
-Basic employee guarantees

With this grant of greater administrative discretion, of course, effective executive and congressional oversight will become even more important.

As someone who has run a large department I can speak personally to the need for greater management discretion. The current personnel and administrative systems are a constant challenge to be overcome for the creative administrator. For the administrator who cannot get around them, they create a roadblock to progress.

To compete for the finest scientists in the world, the NIH director and I had to battle structural and bureaucratic obstacles. The Dean of my medical school, indeed every medical school in this country, has more flexibility in hiring and organization than the Directors of the CDC, FDA and NIH.

Putting these recommendations into effect will take preparatory work. We will need a cadre of well-trained and skilled administrators. We will need models for the best administrative structures and personnel systems for agencies' varied operational tasks. OPM, GAO and others have already done some work in this area. In our report, we note several demonstration projects that were commended to us by the experts as providing good lessons. The Committee may want to consider asking GAO and OPM to undertake a comprehensive analysis of all demonstration models and special authorities to date, to identify which systems work best and in which circumstances, and to point out what didn't work.

Given the importance of personnel and management reform, we also recommend that Congress provide the Office of Personnel Management, agency human resources offices and the management side of OMB with additional resources.

In closing I want to make note of the political diversity of our Commission members. We are Democrats, Republicans and independents. But we had a strong common bond in our concern about the ability of government to meet its increasingly difficult national and worldwide challenges. We had a common view of the problems with the current system and, after discussing the reforms that had been proposed to us, the path to our final recommendations became pretty clear.

Chairman TOM DAVIS. Thank you very much. Mr. Carlucci, thank you for being with us.

Mr. CARLUCCI. Thank you, Mr. Chairman. I have a short statement which I would submit for the record.

Chairman TOM DAVIS. OK.

Mr. CARLUCCI. Let me endorse what Donna just said about bringing civil servants into the process. I was a civil servant for 26 years and believe that the effective functioning of government depends on the strong interaction between political appointees and civil servants.

My testimony introduces a historical note by pointing out that well over 30 years ago I testified before the Government Operations Committee on an effort to move the domestic agencies of government from a constituency-orientation to a mission-orientation. We would have created four departments: the Department of Community Development, the Department of Human Resources, the Department of Economic Affairs, and a Department of Natural Resources. The Government Operations Committee, under the leadership of Chairman Holifield and Congressman Horton, studied this extensively and voted out the Department of Community Development.

I cite this to show that this is a longstanding issue, one that needs to be addressed. I think it is more urgent today than it was then. It needs the full support and devotion of the administration and the members of this committee, and I would look forward to working with you in any way that I can as you move forward to deliberate on this important subject.

[The prepared statement of Mr. Carlucci follows:]

TESTIMONY OF FRANK C. CARLUCCI
National Commission on the Public Service
Before the House Government Reform Committee
March 6, 2003

Mr. Chairman, Members of the Government Reform Committee,

Thank you for this opportunity to appear before you on this important subject. There is little I can add to Chairman Volker's statement, which I fully endorse. I have served in seven different agencies, all of them dysfunctional to one degree or another. This dysfunctionality has been in some large measure responsible for the erosion of quality in government.

Let me add a historical note on the organizational issue. Over 30 years ago I was the lead witness on the Nixon reorganization proposals, which grew out of the Ash Commission. The theme of those proposals was to move the domestic agencies of government from a constituency orientation to a mission orientation. All domestic agencies would be grouped into four departments; a Department of Community Development, a Department of Human Resources, a Department of Economic Affairs, and a Department of Natural Resources.

Ambitious, yes. But after extensive hearings, the Government Operations Committee, then chaired by Congressman Chet Holifield, agreed the concept made sense and voted out the Department of Community Development. Then Watergate broke.

Despite the setback, we learned several lessons – one is that only a total approach makes sense. Doing it bit by bit stirs up just as many hornets as total overhaul. Moreover, an overarching concept is essential to mustering the necessary political support. A second lesson is that Presidential support is needed. We got as far as we did because the Committee knew we were reflecting the President's wishes.

A third lesson is that skeptics can be converted. Most members are bored if not disdainful of reorganization issues, but serious study by the responsible committee can change minds. Congressmen Holifield and Horton deserve great credit for their leadership.

I would add a fourth lesson based on my personal experience. Good people can make a poor organization work for a while but it is inefficient and sooner or later they will be inclined to toss in the towel. A good organizational structure enables employees to accomplish their mission and receive the psychic rewards that brought most of us into government. A tough issue, yes but business reorganizes constantly to keep pace with societal and economic changes. Can government afford to do less?

Chairman TOM DAVIS. Thank you very much.

We will start the questioning with Mrs. Davis on our side, and then we will go to Mr. Davis, keep it in the family.

Mrs. DAVIS OF VIRGINIA. Thank you. Thank you, Mr. Chairman, and thank you all for being here to testify on what I consider to be a very important issue before Congress.

I think we have heard it alluded to by several of you that retention, retaining, and hiring is just something that we seem to be having a problem with. You know, NASA, in my district I hear that the engineers, the top folks, are at retirement age and we don't have people to fill the gap.

With that said, in January 2003, the GAO projected that we are going to have a wave of retirements within the Senior Executive Service. We have a lot of minority and females in the lower levels, but we don't have them in the senior executive positions. Do you think that the Federal Government is in a position to promote within? We are going to have to—and, Ms. Shalala, you may know this since you worked with the higher learning institutions—do we go out to the private sector? I mean, how do we get these folks to come in?

Ms. SHALALA. We do both. Great institutions grow their own through training programs and giving people opportunities, and they also in certain circumstances bring people in. We, obviously, bring in political appointees, but we also bring in specialists in certain areas. I think government has to do both.

But if people entering the government don't think they have an opportunity to reach the top position and don't have an opportunity to grow, then you cannot have a first-rate civil service. There are a variety of different proposals that have been made: the Presidential Management Intern Program. When I first came to government, knowing that no one else in the administration knew anything about it, I took 70 percent of the PMIs the first year, until the other Cabinet Secretaries caught on, because they were the most talented young people that we would bring into government and had an opportunity to put within the agency.

Mrs. DAVIS OF VIRGINIA. We have heard about the political appointees and maybe we shouldn't have so many political appointees. Do you think that it would be difficult for an administration, be it Republican, be it Democrat, or whatever, to be able to promote their agenda, what they want to get done, if we don't have the political appointees?

Ms. SHALALA. No.

Mr. VOLCKER. I think there are probably a lot of views on this, but in my experience, and I have had political appointments but I am not a highly political person in the partisan sense, but in my observation of administrations, the tendency when a new administration comes is always to say: How do I get my program enacted? I need a lot of political appointments. There are a lot of people they want to reward. So you get a steady progression of more and more political appointees.

You have the problem, then, of demotivating the civil servants. I think at the end of the day you get less done than if you had a coherent set of political appointees of senior status working with effective civil servants who mainly want to be in on the action, so

to speak. They want to see things happen, and they want strong direction. You will get more coherence, I am convinced, with fewer but better political appointments than if you have too many.

Mr. CARLUCCI. Absolutely. I agree with that. We could do with about half the number of political appointees that we have, and the issue should be the quality of the political appointees. The current processes for bringing in political appointees discourages quality, and that is one of the issues that the report addresses.

Mr. VOLCKER. On the appointment process itself, of course, we have repeated other suggestions that are made. You have had a steady erosion—or a steady increase may be the way to put it—in the amount of time it takes to get political appointees in place. The government just goes on for 6 months without many political appointees in place.

Ms. SHALALA. I ran the Department of Health and Human Services the first 3 months without a full array of political appointees, which allowed me to meet the senior people in the Department and reach down deeper in the Department. If someone had said to me you had to do that for 2 years, I could have done it. We needed a thin level of political appointees, and we, in fact, mixed appointments—the IG was a civil servant; the Exec. Sec. person came from the civil service—because we wanted to send some messages to the senior people that there were opportunities in the Department. So we mixed the two.

We could certainly do with many less—I don't know whether it is half or a third—many less political appointees.

Mr. VOLCKER. You are going to have trouble keeping us quiet, but let me——

Mrs. DAVIS OF VIRGINIA. It appears you are passionate on this issue.

Mr. VOLCKER. I have one other point. The typical political appointee is in office 2 years. It takes them 6 months to get in, and then he is there for 2 years. In just the management side of government, the administrative side of government, it is very hard to have the perspective that is necessary and the tenure that is necessary to operate an efficient ship, when you know you are only going to be there 2 years. You may not know it, but that is the average experience. You don't have the kind of perspective that is necessary for the operational side of government.

Mrs. DAVIS OF VIRGINIA. I have a million questions, but my time is up. Thank you, Mr. Chairman.

Chairman TOM DAVIS. You stirred up a hornets' nest with that, but it is a good dialog. [Laughter.]

Mr. Davis.

Mr. DAVIS OF ILLINOIS. Thank you very much, Mr. Chairman. I, too, want to thank the witnesses.

Mr. Volcker, in your written statement you suggest that: "The evidence is clear of inadequate recruiting, inability to attract those with specialized skills, scrimping on job and professional training, and inability to appropriately reward high performance."

Could you give an example of inadequate recruitment, what you mean by inadequate recruitment?

Mr. VOLCKER. You know, if you will permit me, I would like to defer to my colleague here, who speaks so eloquently on this sub-

ject out of her experience in very large departments requiring in some cases very highly skilled, specialized personnel.

Ms. SHALALA. Congressman, we heard testimony from the judiciary comparing the salaries of full professors in our law schools, not even the deans but full professors in our law schools. As someone who has run two major universities and the Federal Government at the Department of Health and Human Services, the Federal Government in the judiciary is not competitive, not even close in terms of salaries or packages that we can put together to recruit people.

Now, this is particularly true when you have to find people at the right point in their careers to take these positions, sometimes serious, very important leadership positions. I consider myself a pretty good recruiter, but in many cases some of the people that we wanted we weren't even close. We are talking about public universities. We are not talking about Harvard and Princeton and Yale. We are talking about trying to recruit from public higher-educational institutions in this country, to recruit top-notch people that would head groups in our government.

I particularly want to make an argument for the judiciary. Since I was sued 11,000 times a year when I was in government, I probably shouldn't be making that kind of argument, but to recruit first-class judges, the comparison to what we are paying in the law schools for people at that level—I am not comparing the partners in law firms, but what the law professors are being paid—isn't even close. We want people of that quality.

It also affects our ability to get diversity in government, I am convinced, because top-notch people who are African-Americans or are Hispanics or Asian-Americans have lots of offers. We have to get close so they can send their kids to college.

Mr. DAVIS OF ILLINOIS. Do either one of you have any suggestions in terms of how we overcome this inequity as we try to correct the situation that you describe?

Ms. SHALALA. Well, I think you might want to hear what Frank has to say, but there is no question in my mind that the recommendations in this report, separating out senior people to a more technical corps—we have some flexibilities in government for scientists, but not enough.

We also need to make decisions quicker. When you are competing against a university, those universities can make decisions quicker because their processes are more streamlined. You have got to look at the markets that you are competing against.

Again, I want to emphasize I am not talking about recruiting against the private sector. I am talking about recruiting against the public sector.

Mr. CARLUCCI. I might just mention that it is very hard in DOD to get technically qualified people to leave high-paying jobs and come into government, where they have got post-employment restrictions. They also have a difficult process to go through, divesture, with full visibility into their finances and personal life.

I know of instances where up to 20–24 people have turned down a high-level job in a technical area before finally someone was found. Usually, that person is on the verge of retirement.

Mr. VOLCKER. If I may just take an area that is very much in the news these days, given all the scandals in the corporate world and in auditing, the SEC is one of our premiere agencies historically in the United States, known for, I think, both competence and integrity. I don't think there is any doubt that agency has not been able to keep up, for a variety of reasons, with the complexities and growth of the world of finance and the difficulties in the world of finance.

When you consider the competition that they are under in terms of getting really good, aggressive, competent, young people against the opportunities perceived and otherwise on Wall Street, you recognize that they need a little flexibility in staffing.

Mr. DAVIS OF ILLINOIS. Madam Secretary, and I guess I like the idea of calling you "Madam Secretary," you mentioned the difficulty of having high-level civil service personnel in the system participate in major decisionmaking. Was that codified in any way or was this just a practice of directors or agency heads?

Ms. SHALALA. I think it was a practice. When we have expanded the number of political appointees, which means that we have layered down, it allows people off the hook in terms of who they put in the room, in my judgment.

Some of the recommendations here are about legal kinds of issues, but by reducing the number of political appointees, it seems to me you integrate the government better and you allow us to recruit people who feel like they are going to be in the decisionmaking process. To come into government, to work all your career, to be successful, to move up to the highest levels of government, and then not to be in the room because there are layers of political appointees, I think reduces the number of people that want to come into government, if they don't think they can participate.

All of you have to think about that connected to the number of political appointees. And you are hearing this from a Democrat, as well as from Republicans, about the need for that level.

Mr. DAVIS OF ILLINOIS. Thank you.

Chairman TOM DAVIS. Thank you very much, Mr. Davis. Mr. Putnam.

Mr. PUTNAM. Thank you, Mr. Chairman. I appreciate the Commission's work and certainly agree that we need to develop a way to continue to attract the brightest and the best young, talented, gifted people in this country to answer the call to public service.

I couldn't help but notice, though, that——

Chairman TOM DAVIS. Adam, when you said that, I was thinking about you, when you spoke about the "youngest and the brightest." He is the youngest subcommittee chairman I think in congressional history at 28. [Laughter.]

Mr. PUTNAM. I couldn't help but notice, though, that you punted when it came to legislative salaries. You do have a provision in here, but I suspect that the reason for that is that you can't make an argument that it has hurt the number of people who are called to run for office. I mean everyone in this room certainly has to deal with elections. So, clearly, the salary has not impacted those who seek legislative office.

I am troubled by the call to essentially, if you were to go with the dean's pay for judges, you would take the judicial salaries to

somewhere in the neighborhood of $300,000, which would create an interesting issue in terms of the branches of government where you have determined, by saying whatever political difficulties Members of Congress face in setting their own salaries, they must make the quality of public service their paramount concern, as well as involving the other branches of government.

So you would be creating a situation where we have determined that the judicial branch is more important or, therefore, should be compensated in a drastically different manner than the legislative branch. I would ask, how do you factor in the fact that it is a lifetime appointment?

Mr. VOLCKER. Well, there is some misunderstanding here. We are not suggesting $300,000 for——

Mr. PUTNAM. Well, that was the average salary that would put it back in line with what their deans and comrades-in-arms are being paid.

Mr. VOLCKER. I don't think—we cited some evidence as to what deans were getting at leading law schools and what professors were getting. I don't think we meant to say we are recommending a $300,000 salary.

The practical area that we are talking about is failure of judicial salaries to increase at all. The district judge, if I recall correctly, now makes $150,000 a year. We deliberately did not cite precisely what we thought would be appropriate, but we cited these comparisons to suggest, I would think, that you might begin at least by catching them up with the failure to keep up with the cost of living over the past decade.

I personally think a little bit on top of that would be appropriate, too. In my mind, $300,000 was not in the ball park of what I would have thought appropriate.

Mr. PUTNAM. Well, I was just looking at your pay comparison.

Mr. VOLCKER. That is a reflection, I think, in part of there are attractions to being a Federal judge. Lots of people want to be a Federal judge, and to have a lifetime appointment, and so forth and so on. So they don't have to compete with partners in a law firm.

Those people in universities generally can make some income outside their salaries, too. So if they are getting a $300,000 salary, undoubtedly, they are making more than that. But we did not mean to suggest that $300,000 was the right number.

Mr. PUTNAM. What is the rationalization of decoupling the congressional salary as basically the cap for the other senior-level service positions? There are instances where we have done that. The SEC I believe is one of them. But it is a fairly dangerous Pandora's box to open because, frankly, it would immediately exceed where we are, because all of us have to answer for the 3.9 percent, or whatever it is that we get every 2 years or every year.

So there is some concern that within a very short period of time most every senior-level executive in the entire Federal Government would be making more than the board of directors for that Federal Government. I would be interested in hearing your thoughts on where that would take us 5, 10, 20 years down the road.

Mr. VOLCKER. This has been, clearly, a chronic problem: the debate between getting an adequate salary at the top level for a rel-

ative number of people in the administration while dealing with the natural congressional reluctance to face their constituents with salaries that create a political problem for them.

Our suggestion is we can well understand and agree with an increase in congressional salaries that is more or less commensurate with what we are proposing. But what we do say, if you feel that is inappropriate, given your particularly sensitive position, if I may put it that way, in terms of the electorate, you shouldn't refuse to increase the salary for judges and senior executives because of that particular sensitivity, because I think you are doing damage to the basic operation of the government.

Mr. CARLUCCI. May I add something? I think the case we are making is that this linkage has resulted in an erosion of quality in the executive branch and may well be eroding the quality in the judicial branch. I assume that you are not arguing that you have to preserve linkage for linkage's sake; that the purpose of the salary is to encourage quality and, if necessary, delink them. You delinked them already when you doubled the salary of the President.

Mr. PUTNAM. The argument I make is simply that it creates an awkward situation. At the University of Miami there are very few people, other than the number of top researchers and the football coach, who make more than the president of that university.

If you had a Federal Government where the vast majority of the senior-level executives are making substantially more than the board of directors or the Congress, then you have created somewhat of an awkward situation. I am not arguing for greater congressional salaries. I am arguing that, in the spirit of public service, which is what all of this is, and when you factor in the additional benefit, the revolving door in and out of the private sector, the potential for long-term earnings as a result of having been the Deputy Under Assistant Secretary to the Under Secretary of such and thus, there are other reasons why people enter government other than the specific salary. That is my argument.

Mr. VOLCKER. There is no question about that. There are other considerations here, and it is just a question of relative proportion and how far can you let this get out of line safely with the marketplace.

Chairman TOM DAVIS. Would the gentleman yield? Your time is up.

Mr. PUTNAM. Yes, I don't have any more time to yield.

Chairman TOM DAVIS. Let me just say that a lot of the revolving door are political appointees. They are not your career people that come up. I think we are talking less about the political appointees than attracting a cadre who will come and stay in government.

One of the things I am hearing is they want to be involved in the decisionmaking, that regardless of their personal politics, they tend to respond to whoever their boss is. They want to be part of the action.

But these are people who spend their life, 30 years, in government many times. A lot of them will leave at mid-term if they don't see that career path, when their neighbors and everybody else are making money.

I appreciate your question. Obviously, it raised a lot of comments down here as we work our way through it. Thank you.

Ms. Norton.

Ms. NORTON. Thank you, Mr. Chairman.

I found your recommendations very helpful and very thoughtful. The Commission recognizes that the Federal Government is competing for the same personnel that everybody else is, and you recommend that pay be based on market comparisons.

You are aware, then, perhaps of the locality pay system. I wonder what you think of locality pay, which applies to everybody from managers, but especially to people in the higher levels because those are the people that are most likely to have marketable skills that they can use elsewhere, and to take those skills and to use them elsewhere. What do you think of the locality pay system? Do you have criticisms of it? If so, how would you change it? What kind of system, if not that system, would you put in place?

Ms. SHALALA. The question is about locality pay. Actually, the locality pay has been used to basically try to handle the market situation in those places. It was a way around dealing directly with competitive salaries, I think, Congresswoman Norton.

Ms. NORTON. Well, it was a way of saying they are making this.

Ms. SHALALA. That is right.

Ms. NORTON. If you live in New York or Washington and you are a manager of X,Y,Z, people make this; you make——

Ms. SHALALA. Right.

Ms. NORTON. There are some disparities here, and it was an attempt to bring that pay here more in line with the pay that, presumably, this employee could go out on the open market and earn.

Ms. SHALALA. Right. I think our point would be, on locality pay, that it does partially allow people in a certain area to get more competitive, but it doesn't solve the problem, as we have well seen. It doesn't completely overcome what has happened in the market or the larger group that you are trying to deal with. It just doesn't make up the difference.

Ms. NORTON. So what does? If not looking at what people earn in San Francisco and trying to make the comparable——

Ms. SHALALA. You have to look at their specific jobs. You have to look at specific jobs.

Ms. NORTON. Well, but that is what locality pay does. It says, a manager doing exactly what you are doing in San Francisco or New York makes this; if you are a Federal employee, you make awesomely less than this. And this was a system that has become very controversial, but that tries gradually over time to bring you closer to what your counterpart in the private sector in your locality makes, so that you will not pick up your hat and go work there.

So I want to know, if not that system, which has been controversial only because it has been difficult to get the Federal Government to, in fact, employ it—it is a matter of Federal law. If not that system, looking region by region, city by city, using your notion of a market-based comparison, if you mean it, and if not locality pay as the way to make the market-based comparisons, then what is the way? Because this is an issue on which we need a whole lot of help now because of the difficulty in implementing locality pay.

Mr. VOLCKER. My impression is quite a deal of progress has been made in locality pay in the last decade or so, since the last commission that I was involved in, when we made a big point of the need for locality pay. I am told some considerable progress has been made there.

The Federal Government is a very big organization, and we have got a lot of different problems. We did not find, our investigators have not found, an across-the-board problem with Federal pay up and down the line. The problem tends to be concentrated in particular areas. It is concentrated with the top level, where there has been enormous compression.

Nearly everybody in the Senior Executive Service gets pretty much the same pay, and it is a problem with technical experts, professional experts. There are problems in some particular scientific areas, particularly in more senior professional or management positions. But it is not an across-the-board problem with Federal pay every place at all ranks, and particularly I think locality pay has helped take care of some very obvious problems that did exist in that area.

Ms. NORTON. You are certainly right. The locality pay has been very helpful. It has been very difficult to get each President to, in fact, do what the Congress says to do, which is to do it. While I agree with you that the disparities put us out of the market, unable even to recruit at the higher levels, I disagree with you that it does not apply to any but the higher levels. The figures on that are available for anybody who wants to look at them.

I would like to ask you a question about competitive outsourcing. This is a hugely controversial issue. We have got to take a hold of these controversial issues if we are going to keep a work force.

Outsourcing is a part of the way every government does business now. I think people, even people who disagree with it, have come to accept the notion that there is going to be outsourcing.

The controversy comes because—I note that you believe, let me begin there, that it should not undermine the core competencies of the government. I very much appreciate that you say that.

One of the problems with destabilizing the civil service work force is that there is no way of knowing how the government does outsourcing, when it does outsourcing, or who is going to be outsourced.

The comparisons between costs are often not done. There is a presumption that is greatly resented in the civil service work force that, if you put in the contract work force, it is going to be cheaper and it is going to be better.

Now imagine there are civil servants, huge numbers, working side by side, virtually, with contract employees who are doing exactly the same job. This is a big problem, whether you are working at very high levels or whether you are working further down the system.

I wonder if you have any ideas for the government on how to make a more rational system of competitive outsourcing. And may I add that the notion of having the civil servants compete with contractors has been given the back of its hand by the Federal Government. If you want competitive outsourcing, then one way to do it would be to have some experiments at least to allow civil servants

who have been doing the job to compete with contractors to see who does the job best, at least on a pilot basis.

That would help, it seems to me, to get down some of the controversy, and again, if I may say so, eliminate some of the outpouring of people out of the Federal Government and our inability to simply quickly attract new people of the same quality and experience to fill their positions.

Chairman TOM DAVIS. Thank you. The gentlelady's time has expired. If you would like to answer, if you have any response to that, you are welcome to do so.

Mr. CARLUCCI. I will just comment that DOD has run a number of those competitions, some successful, some not quite so successful, but there is at least one agency that is doing it.

Chairman TOM DAVIS. Yes. In fact, DOD has had the A–76 Circular they have used for years——

Mr. CARLUCCI. For some time.

Chairman TOM DAVIS [continuing]. And that is being revamped as we speak, and a lot of dialog going on. We had the Competitive Source Panel last year coming back and reporting, but it is an area this committee intends to look at a lot, and we look forward to your input in that, Ms. Norton.

Ms. NORTON. Thank you, Mr. Chairman.

Chairman TOM DAVIS. Thank you very much.

Mr. VOLCKER. It does seem to me an area where the Congress ought to set down some guidelines, and I think it is in this committee's jurisdiction as to how to deal with this promising, but also difficult, area.

Chairman TOM DAVIS. It is a difficult area, and we could spend a whole hearing just on that issue and polarize the committee, but it is something that we intend to pay a lot of attention to and having a dialog. Thank you.

Mr. Schrock.

Mr. SCHROCK. Thank you, Mr. Chairman. I am going to be very, very brief.

Mr. Volcker, thank you for what you and your Commission are doing. Now I only got this when I walked in here this morning, but when I looked through it, I realized I need to read every page of it.

I think the thing that you have said that struck me the most is it is taking too long to get the political appointees confirmed. Either you said it or Ms. Shalala. I don't know of any department that has collapsed because no people have been there, and I think there are too many political appointees.

I know the DOD has even thought about doing away with the Secretariat level because all those jobs are—and don't get me wrong; I am a retired military officer, so I support the DOD—those are just paybacks for getting somebody in the White House elected. I am not sure we benefit by that sort of thing very much.

When you get done with this, when we get this implemented—and I hope we just don't have a hearing; I hope we get this implemented—there are other things you need to take on as well, and they have nothing to do with what you did, but I am going to mention three of them, figures I learned last night.

I learned that the Social Security Administration, 10 percent of the checks that go to people, the recipients are dead. Ten percent are dead, and most of them go offshore.

Welfare fraud is an epidemic right now, billions of dollars on welfare fraud. In the Department you used to head, Mr. Carlucci, $18 billion of missing military hardware.

We have to get these departments under control. I think if you hired the best and the brightest to get in there and give them flexibility to do what they want when they leave, we are going to put a stop to some of this stuff. So I admire you for what you are doing.

I just hope this doesn't fall on deaf ears in Congress. It is great that the chairman is holding this hearing, but sometimes I find, when I was in the State level as well, you walk out of a hearing and nothing is done; they stick it on a shelf and don't implement it. I hope you will bug us to death until we do something about that because it is good stuff, and I thank you very much for what you have done.

Mr. VOLCKER. Well, I think we have learned that this is an easy area for everybody to put it on the shelf and not take action. The whole purpose of our report is to try to stimulate action in a reasonable direction, because we think it is sorely needed. There is just so much evidence that is needed. I do hope the committee will follow through.

Mr. SCHROCK. I agree. Thank you.

Chairman TOM DAVIS. Mr. Ruppersberger.

Mr. RUPPERSBERGER. First, thank you for what you are doing. I think it is very important that we do continue to evaluate and look at our government on a regular basis. With the quality of the Commission, I think, hopefully, we will be able to do something.

To begin with, I think we have a very complex government; most governments are. But when you look at management, management has basic fundamentals. It is usually hiring the best people that you can, giving those people a clear sense of direction and clarity of mission. You have a Secretary. You hold that Secretary accountable for the performance of that department.

Now management of a department or management of an agency, or whatever, has different components. We talked about salary. That is one issue. But I think an issue that is important, too, is the ability of the leader to motivate.

I think you were talking about bringing the civil servants into the room, making them feel a part of a process. I think that is a very, very important issue.

I want to ask a question, though, as far as what you have looked at. Are you familiar with the Gains Sharing Program?

Mr. VOLCKER. The what?

Mr. RUPPERSBERGER. Gains Sharing. Let me try to explain it. I was a former county executive, and I managed in Baltimore County about 7,000 people. I realized, when I came into office 8 years ago, that we were in a recession; morale is down. You hear morale is down on a regular basis.

I hired a consulting team outside of our area to implement this program called "Gains Sharing." Gains sharing, basically, is group incentive and then based on performance. What you really do is

that you have facilitators and you go into different departments and you create like a pilot program.

To give you an example, one of our pilot programs was the food service in our detention center. As a result of pulling the front line together and asking the front line, what can you do to make your job better, to improve performance, as a result of facilitators working with the front line, they said, "Well, we can fix our food better. We can purchase better." As a result of working in that program, this group, performance went up; costs went down.

Part of this Gains Sharing Program, when cost goes down and it can be established, there is an incentive with money that goes to the group. As a result of that, we had, as an example, employees maybe making $28,000 or $35,000 who took home a $5,000 bonus. But the bonus is just a small part.

What gains sharing really did, it improved management versus the front line, and it improved the relationships. Therefore, the front line felt as if they were now shareholders in the entire government operation, and they just weren't coming in and punching a clock and taking their 20 years.

That motivation makes a very big difference. But not only did it improve labor/management relationships, you found that in the group, because the group had an incentive to improve performance, that the group would then manage their own employees. The lazy employees, they would get on them and say, "You're hurting the group."

Now what happened, you can't just say gains sharing is going to be a program or a philosophy that, for instance, with police officers, how many arrests you make. Let me give you an example in the police department. You usually have three shifts, and one car is used by the different shifts. If you are taught how to apply brakes to a car versus somebody who doesn't, and you don't have to get new tires—one group has to get new tires in 6 months, the other in a year. There is a performance issue. There is a cost-saving issue.

So I think it is extremely important that you look at the motivation point of working, bringing the front line in, and that will allow the civil servants again to be shareholders in the operation.

The second point, I think the flexibility issue is important. We know the political ramifications. We are always going to be changing, different administrations and different people that come in, and they want their own people that are there.

But when it comes to specialty areas, and in your testimony today, if you are competing with the private sector for people in the technology arena, for people in a specialty area, you need to have that flexibility to hire the best you can, because we are one of the largest employers. We need that expertise.

So there must be some flexibility to compete with the private sector in specialty areas. I think that will not interfere with the civil servants. The civil servants are concerned that, if you get the camel's nose in the tent, there is a problem. We have to distinguish to look at the issue of performance.

Now my point—it was a statement really—have you considered or looked at the Gains Sharing Program? I know in my previous job, the State Department, because we won a national award for

our gains sharing and it was effective, the State Department made inquiry. I think they are looking into that, to possible implementation of that within their Department.

Could you consider looking at it or have you looked at it?

Ms. SHALALA. Yes, actually, the Federal Government has a variety of different approaches that are similar to the philosophy of gains sharing, including investments in total quality management, where you get the front line people as part of the group, and figuring out reward systems.

The problem with a lot of these kinds of experiments, they have been put on top of the existing system. What you are suggesting is that the fundamental culture changes, so that the government is organized in different ways. That is consistent with the report itself, which argues for nimbleness and flexibility and reward systems.

We didn't focus on pay. We did focus on, and we have a list of, various experiments in government that we think ought to be mainstreamed. The concept of gains sharing, the use of total quality management, and other kinds of management approaches are very much what the government has both started to do and what needs to be mainstreamed. That is what the report recommends.

Mr. VOLCKER. When I listened to you, Congressman, it sounded to me like a sermon. Forgetting about the details, we didn't consider gains sharing as a specific, but your emphasis on the need for management and flexible management is right in the spirit of our report.

I think we are trying to do two things. The government is complicated. We want strong, coherent political direction, but when it gets to administering a program, the administerial job, the kind of thing that Mr. Schrock was talking about, and Social Security, Medicare, Medicaid, many other programs, then the balance goes toward getting some managerial flexibility and effectiveness. That takes a kind of different talent than the political one. It takes people who are going to be there for a while and have responsibility. You can have measurable results. That is what we want to encourage.

Mr. RUPPERSBERGER. One of the things that I think is lacking in a lot of management generally is a lack of accountability, holding people accountable for performance. Once you establish something and you tell people what to do, and you hold them accountable, if they know they are going to be held accountable, and you give the resources to do it, you can do the job.

One other point: I haven't heard training. I think training is extremely important. A lot of times you have civil servants, as an example, who start out; they are very good workers. They move into management; they don't know how to manage because they haven't been trained to manage, and they really interfere with the front line. I think that is a very important issue that we need to look at also.

Mr. VOLCKER. You will find that word rather emphasized I think in the report. That has been a big lacuna in Federal employment, much less spent on training and education than in the private sector.

Mr. CARLUCCI. There is another aspect of this, and that is that the current appropriations and authorization process discourages savings. If you save money in the Federal Government, you lose it.

I can remember when I was in Donna's old Department staying up half the night the last day of the fiscal year to shovel out all the grants, because if we didn't get them all out, the money would be taken away from us, and we would get less the next year.

When I went to DOD, I tried to design a program where base commanders could keep some of the savings that they achieved. OMB stepped right in and said, "No, we'll take the money." I think DOD is going back at it again, but you have to take a look at the appropriations process, if you really want to encourage people to generate savings and get rewarded for generating those savings.

Mr. RUPPERSBERGER. No question, but that needs to be a change in culture.

I will tell you another trick that is used, too. You talked about not being able to fill positions for 6 months. That is your Budget Office that saves money that way.

Chairman TOM DAVIS. Thank you. The gentleman's time has expired.

Let me say thanks. I will give you one example when I headed a government out in Fairfax. Our first year we had a fiscal crisis. I went to all my managers, you know, "We need the savings," and they squeezed maybe 1 or 2 percent. We came back with a theory, with a program, that if they saved the money, they could keep a third of it and spend it the way they wanted to. They came up with a lot more money. Who wants to save money in their budget and scrimp their budget to go to some department that overspends?

So this is something that I look forward to working with you on, and I think it is in the spirit of where this report is headed. I appreciate it.

Mrs. Miller. Thank you.

Mrs. MILLER. Yes, thank you, Mr. Chairman. I will be brief, but in regards to what you were just talking about, use it or lose it, that really is true. I think that is part of Secretary Rumsfeld's idea of transformation in the DOD which is very appropriate.

I wanted to make a comment on your report as well. I also just received this when I came in today, but I am going to read it all. I can see it is a very interesting report. Obviously, you spent a lot of time and resources and attention to it.

I am from Michigan, and we did a very similar type of report. We called it the Secchia Commission, where we tried to look at how we could structurally reform State government, how we could incentivize people, whether you were using flex time and comp time, and all these kinds of things.

We talked about, which I am sure is in here, you know, for instance, the concept of customer service from civil servants to taxpayers. That should not be a novel one. It could be an operative phrase.

As you have been talking about how you attract for some of the higher tier, also coming from Michigan, a labor State, we had also some recommendations in the Secchia Commission report about how some of the very contentious labor/management issues, as you

try to restructure these things, and how difficult it was to mesh those challenges.

I am wondering if you have any specific recommendations in here or if you could comment on the kinds of challenges you would expect the Federal Government to face when you start talking about structural reform to the civil service.

Mr. VOLCKER. Well, I guess our whole report is directed toward those kinds of problems, that we need some structural reform. I don't think I have any——

Ms. SHALALA. The big challenges could be congressional because you would have to re-sort the congressional committees. Many of these agencies already have so many committees of jurisdiction that it would be a mistake to just re-sort out the Federal Government and not make the accompanying changes in terms of congressional committees. So they would have to fit together, and that is one of the recommendations that is made.

Mr. VOLCKER. We were so bold as to feel that we could make a recommendation to the Congress itself here and there, like changing the committee structure. But I do feel that, if you are going to follow the philosophy in the report, all administrative agencies and all bureaucracies need some oversight, and they need political oversight, and the committee structure of the Congress ought to be reasonably aligned, so that some committee feels responsible for kind of continuing oversight of executive agencies. That is true in some cases now, but in other cases it is not. I think that alignment is important.

Mr. CARLUCCI. Another point made in our report that is extremely important is that this has to be a collaborative effort between the administration and organized labor. You have to bring the participation of the employees along, and there is going to have to be some consultation with the labor unions.

Mrs. MILLER. Thank you.

Chairman TOM DAVIS. Thank you very much.

Let me just say we are having a series of three votes. Ms. Watson, we will go to you, try to go to Governor Janklow, and then probably recess and, if your time permits, come back. That will give you about a 20-minute break. Then we will come back. I haven't asked my questions yet. I just want to have a few minutes of dialog, if your schedule permits.

Ms. Watson.

Ms. WATSON. Thank you so much, Mr. Chairman. I want to say that I have the full confidence in the panel in front of me that the outcome will be a positive one.

There are just several comments I would like to make. You can respond later.

I think your recommendations are going in the right direction. Recommendation nine that deals with salary compensation, I, too, in my former life know that in California we lost a lot of good people to the private sector. So I want to just confirm and underline your making salaries commensurate with the private sector to keep good people.

An additional concern is I see the dumbing-down of America. In watching television, the quality of the programs are for children in maybe elementary and junior high school. So I think under your

recommendation 12 we need to look at competent people, the best and the brightest, and we are going to have to some way relate to universities and to the private sector, be sure that we can attract people from there to come into government with incentives, so that they will know they can move up to the salary levels they could in the private sector. I am really disturbed about what is happening to America with the kind of media that we are exposed to.

Diversity becomes an issue in my mind. I want to be sure that, when we talk about competency, we also talk about competent people who reflect America as it is today.

I come from a State where diversity is a goal; diversity is a value. We are the first State in the Union that has a majority of minorities.

Your recommendations 13 and 14 are excellent. I think that continuing education needs to be a part of whatever your final recommendations are.

So I want to wish you well. You are on the right path. You are going in the right direction. As I look at the panel, I know that your final report will be something that will really bring our government to the 21st century.

Thank you so much, Mr. Chairman.

Chairman TOM DAVIS. Ms. Watson, thank you very much.

Mr. Janklow, thanks for waiting. This will be our last question before we break. Thank you.

Mr. JANKLOW. Mr. Chairman, members of the Commission, I appreciate your indulgence. I will be very brief.

One, you look at page 19 of the report. It talks about the delay in the appointment of people. That is scandalous, absolutely scandalous.

One, the system is used to intimidate people. Two, the system is used in order to try and embarrass people. Three, the system is used for political payback, and, four, it is used for anything by both political parties except to try to give the President of any party the team that they need to really get the job done.

Two, you look at page 38 of the report, and you see what you have with respect to the Environmental Protection Agency. That is scandalous.

I have seen charts from the National Governors Association. There are 128 Federal agencies that deal with education in this country. That is scandalous.

The food safety issues, you have got 20 different agencies that deal with food safety that they have been able to identify. You know, contrast that with what the military has been able to do over the last couple of decades. When they were in Grenada, they approached a situation where they tried to call in an airstrike, I think as some of you will remember, onto a particular building. They didn't have the communication for the Army to talk to the Air Force. So somebody actually received a medal, a captain received a medal, from the 82nd Airborne, by having gone to a pay telephone, using his AT&T credit card, called Fort Bragg, NC. They radioed the Pentagon. They got hold of an AWACS that called in an airstrike.

Somewhat after that point in time, when they got to Desert Storm, they didn't have those kinds of problems. The military figured it out.

I can't tell, until they run for political office, whether generals are Republicans or Democrats, or captains or sergeants or corporals. The military is a beautiful example of how you can have a bipartisan organization that functions.

But you are missing one thing in all of this. Why don't you draft the proposed statutes for us? We can't do it. We can't even figure out how to get Homeland Security without going home for our Christmas recess.

Chairman TOM DAVIS. An honest man here. [Laughter.]

Mr. JANKLOW. So why don't you draft proposed statutes and then let us fight about how to modify what it is that you are doing? But if you ask us to do it in the first instance—and I will say this: Wherever you can find Donna Shalala and Frank Carlucci, I want to be in the midst of them. That is a great group. Volcker, you are in a perfect spot for this type of thing. [Laughter.]

But if you folks would draft a statute for us, or the proposed statutes, then we could go to work on them, and we will get something done. Otherwise, this is going on the shelf. It is not even going to be a footnote in history; it is too thin, and nobody is ever going to pay attention to it after the hearings are over.

Thank you.

Chairman TOM DAVIS. Mr. Janklow, it is great to have you on the committee. [Laughter.]

Mr. VOLCKER. I was about to suggest to Ms. Watson that we were trying to put the ball in your court. Now it has been kicked back.

Mr. CARLUCCI. Well, actually, if I may comment, some of the statutes have been already drafted. Years ago, I spent a lot of time testifying on something called the Allied Services Act, when I was in HEW. This is an act that would have allowed localities, community action organizations at the local level, to co-mingle funds where there were like programs.

Mr. JANKLOW. But everything has been drafted once. Put it together in a package.

Chairman TOM DAVIS. OK, let's address this when we get back. We have about 7 minutes left on the first vote.

Mr. JANKLOW. Thank you.

Chairman TOM DAVIS. We have two 5-minute votes. So if you can wait about 25 minutes, we will take a break. Thank you very much. You have generated up a lot of enthusiasm and comment here. Thanks.

[Recess.]

Chairman TOM DAVIS. The full committee will reconvene.

I will start with questions. There is nobody else here. I have got a bunch of them that I want to ask.

First of all, one of the recommendations that you give that I think is very, very important, and I wanted to get input from all of you, is to reauthorize the executive reorganize authority that existed from Roosevelt to Reagan. We saw what happened with the Department of Homeland Security, the wrangling back and forth,

and everything else. Obviously, I think it makes a lot of sense to have a fast-track procedure.

The key for us, the difficulty, the devil is in the details: How do you write this? There is a huge suspicion right now between some of the public employee groups and this administration after Homeland Security. So you, obviously, have to write some language in there that would give a modicum of protection on that.

To me, the key to writing an executive reorganization authority is to get away from all these turf fights that you run into up here. Now that is what is critical. I think we could handle the public employee component of that in a satisfactory way. If the administration or any later administration doesn't want to go along with that, then they are on their own and they don't come under this reauthorization authority.

So I think we can take care of that, and that is one of the larger political obstacles. But the key is to make sure that these different committees that have jurisdiction don't try to pick it apart.

We ask the executive branch to do a lot of things in delivering service, and we ought to give whoever the Chief Executive is, whether it is Bill Clinton or George W. Bush, or whoever, give them the tools they need to make it go. I think this makes a lot of sense.

If we can take care of the public employee piece, it seems to me this is a much more doable piece without that. I think you would have a battle royal that is just going to go right down the middle.

I would be interested in your comments on it. I will start with you, but I would be interested particularly in Ms. Shalala, what she may have to say about this, and Mr. Carlucci.

Mr. VOLCKER. Well, let me give you my reaction. What you are saying, it seems to me, is exactly in accordance with our thinking. If we are going to have some progress here, we are not going to reorganize the government overnight, but you can set up a framework that will expedite the process, not in one great sweep for the whole government, but permit progress in one area or another, depending upon the President and what his priorities are, and all the rest.

And you could set up a framework, I would think, that, as you suggest, avoids the turf fight. The turf fight will come with a specific proposal, fitting in the general framework that you have in mind. But I do think you have to deal with some things in the framework.

I just speak for myself. You mentioned the labor one. I think that is an important one. This outsourcing thing may be something that fits into a general framework, too. We have got some guidelines about what that should be, and I am sure there are other areas where you need some broad guideline for the Congress, so that when the President proposes something, he conforms to those guidelines and you don't fight that battle every time a particular piece of reorganization comes before you.

Chairman TOM DAVIS. Right.

Mr. VOLCKER. The turf fight will come then, as I see it.

Chairman TOM DAVIS. Well, and you could put in some consultation ahead of this as part of the guidelines that the Congress is completely——

Mr. VOLCKER. Exactly.

Chairman TOM DAVIS. Ms. Shalala.

Ms. SHALALA. One way of thinking about what we did is in many ways we eliminate the turfs by putting them all together, so that no one is fighting with each other over who goes where, because you have consolidated into superagencies the functions of government. So, in some ways, you reduce the amount of turf fighting that is going on.

I also would say that you would have to put in more than a modicum of protection for the civil service. For them to believe us, they have to believe that we are serious about partnerships with labor and that we are willing to work through these issues with them. It is not just the labor representatives; it is the civil servants in general in the departments that have to have a sense of trust that this is not going to be an arbitrary and capricious process.

So I think it is possible. I think it is important to do it, but I think that we have to think about who at the end of the day is going to produce the work, and that is going to be the people that work there. They have to get more than just messages. They have to see us demonstrate that this is going to be a partnership to produce very good outcomes for the government.

Chairman TOM DAVIS. Do you think it is fair to say, then, on your Commission, had we asked for specific language on this, it may not have been a unanimous vote because the devil really is in the details here in terms of how you write some of these protections in and everything else?

Ms. SHALALA. Our Commission could achieve a unanimous vote on protections, in my judgment.

Chairman TOM DAVIS. OK.

Ms. SHALALA. I mean, we would have to work very hard at it, but I think that Frank and I, as people who have run these big agencies, and certainly the chairman, could have probably worked something out in terms of protections based on our experience, working with the unions. But I am not sure, Mr. Chairman, that is particularly our role. It is a political function to work through this.

Chairman TOM DAVIS. It is, but I think this: You look at it. Each of you have a perspective and a different philosophical perspective as you look at this. But having a group as diverse as yours coming to some agreement or commenting on language, so that we may come up, emboldens us a little bit as we go out.

You always worry about somebody saying, "I don't want any change, period." Even if you get something reasonable, nothing happens. I am not asking you to do it, but I am just saying we may want to ask you to testify up here, if we put some language up and get comments on it.

You don't have to worry about political repercussions; our Members do, and that is one difference. But you can embolden Members sometimes by putting a stamp of approval on some language you think is, given your experience and perspective, having been in the Federal Government for a long time, that is very important to us.

Mr. Carlucci.

Mr. CARLUCCI. There is a slightly modified model that one could think about, and that is the Base Closure Commission that was

created when I was Secretary of Defense, where you had outside experts take a look at the base structure. In this case, it would be government organization structure. Make recommendations which the administration would accept or reject, and then move it to the Congress, which would have no ability to amend it, would have to accept it or reject it in its totality. That is similar to the fast-track legislation, but it introduces the commission idea into it as well.

Chairman TOM DAVIS. OK. I think my time is up. Mr. Shays, any questions? I have more questions, but I will wait until the next round.

Mr. SHAYS. I am just happy to have you pursue a few. Tom, do you want to just take yours?

Chairman TOM DAVIS. That is fine. Well, no, we have Mrs. Blackburn down there, who has not had an opportunity for questions, who has been sitting there patiently. Let me recognize you and give you 5 minutes. Thank you, Marsha.

Mrs. BLACKBURN. Thank you, Mr. Chairman, and, yes, I have thoroughly enjoyed this. Being someone who came from the State Senate in Tennessee, who was an advocate of government reform, I have enjoyed reading through your statements, listening to you, and also I look forward to looking through your book.

There is one thing that I did want to ask you about. As I looked through your report that was delivered this morning and read through the conclusion—I am one of those that goes to the back of the book and reads that first.

Mr. VOLCKER. Find out who murdered whom before you read the book. [Laughter.]

Mrs. BLACKBURN. Right. One of the things I noticed in here was a statement that you say, "This would not be a bigger government but it would be a better government."

Ms. Shalala, in your comments you had noted three things that you saw as being important: clear program objectives, performance specifications, and basic employee guarantees.

What has intrigued me, just in this short of period of time, is that there is no comment toward cost. When you talk about this being a better government than a bigger government, in what way? Because I look at it and think, is a better government going to end up costing us less? Is a bigger government just in terms of cost? Is it in terms of more or less government regulation? Is it going to be something that the taxpayers are going to feel like they are getting a better buy for? Is it going to be fewer Federal employees who are more fairly compensated?

As you all have worked through this process to build a framework, as Mr. Chairman just said, the devil is in the details. I think that for those of us who have people who entrust us with their vote to represent them and their views, what it is going to end up costing is very important to the taxpayers that support this system.

Ms. SHALALA. Well, let me simply say, from the point of view of a manager of any kind of large, complex, any kind of organization, retention saves money. The turnover of personnel, the constant need to recruit, not being able to keep your senior people, in the long run costs you money. Overlapping functions costs the government money, where you have large numbers of government agencies who are doing similar things.

I always thought about the Medicare program, and I don't really want to get into Medicare, but the problem with it was that the legislation was so complex that it just cost a lot of money to manage a government program where the legislation itself was so complex, because everybody kept adding requirements to it. If I was going to reform the Medicare program, I would clarify the legislation first before I started to add new functions all on top of it, but Medicare is just an example, a highly complex piece of legislation.

Social Security, on the other hand, is much more straightforward in terms of what the rules are, how you get on it. The parts of it that are complex have to do with disability.

But my sense is that, by taking major pieces of legislation and constantly changing the rules by changing legislation, you have made it so complex to administer; anything that you could do to bring clarity to both the legislation, the functions of government, who is responsible for what—I never guarantee that you could save money. What I do guarantee is that you could improve the quality of government and of government service, and certainly not add to the overall cost.

Mr. CARLUCCI. Certainly, by eliminating some of the duplication, you can save money. But some of the things that we do are unquantifiable. How much is it worth, for example, to save an airline because you have high-quality air controllers? Or we have the example today of the all-volunteer Army, which has dramatically improved the quality of our military. Difficult to quantify the savings, but we know that we are better off because we have these kinds of dedicated and well-trained and well-educated people.

Mrs. BLACKBURN. Thank you.

Chairman TOM DAVIS. OK, thank you very much. Mr. Shays.

Mr. SHAYS. Thank you. Thank you, Mr. Chairman. Thank you for conducting this hearing, and thanks to our three panelists.

I get a little embarrassed when three people who have such busy schedules have to wait 45 minutes while we are voting. I apologize for that.

Chairman TOM DAVIS. But it was on the Journal and a motion to adjourn. So you can be assured that it was important business. [Laughter.]

Mr. SHAYS. So we really felt important while we were there. [Laughter.]

Mr. VOLCKER. That was a constructive vote, I would say. [Laughter.]

Mr. SHAYS. I was extraordinarily impressed with the people who are on this committee, 11 direct and 2 ex officios, really politically astute folks, very knowledgeable. So I consider what you were able to accomplish as being done by people who know a lot about government.

I was also impressed by the breadth of the recommendations, but they aren't really spelled out in much detail. That is probably wise as well.

What I want to ask you is, I would like each of you to tell me the one thing you think is the most important and the one you think is the least important. I would like you to tell me the recommendation you think will be the most difficult to have and the least difficult.

Mr. VOLCKER. Well, most important in——

Mr. SHAYS. Of these 14 recommendations.

Mr. VOLCKER. Pardon me?

Mr. SHAYS. Of these 14 recommendations, which of the 14 is the most important? And if you want to give me two or so——

Mr. VOLCKER. Well, certainly, in a tactical sense, the most important is what we were just talking about: getting some legislation to facilitate reorganization on a kind of fast-track, to use that term, basis.

Mr. SHAYS. Reorganization of the government or the personnel process?

Mr. VOLCKER. Pardon me?

Mr. SHAYS. Reorganizing the government into different departments and agencies or reorganizing the personnel process?

Mr. VOLCKER. No, reorganizing the government I was thinking of.

Mr. SHAYS. OK.

Mr. VOLCKER. I think that is important for two reasons. First of all, I don't think you are going to get the reorganization without that kind of authority. Second, it would be an enormous signal, I think, from this committee that this whole thing is taken seriously, and that things should move forward.

I don't think there is anything else you could do, just to give you my opinion, to get the process launched than lay the basis for some of the other recommendations.

Mr. SHAYS. It would sure wake people up. Let me just take——

Mr. VOLCKER. I would say, on specific things, I think we have always had this problem of salaries and compression at the top, but I do think the judiciary makes a very persuasive case and that something ought to be done there. I think there is some gestation of thinking in the administration and elsewhere. So that could be done, and a little more flexibility in salaries breaking the Senior Executive Service between the management and the professional staff, and providing some flexibility there, to give you three specifics, I think would be a great help, right off the top of my head.

Mr. SHAYS. Thank you. I am not going to ask you the one you think is least important, actually. That would be fun to know, but I am not going to ask you.

Mr. Carlucci, which do you think is the most important?

Mr. CARLUCCI. Well, I agree with my chairman. I think getting a fast track is probably——

Mr. SHAYS. Is that a requirement for the answer? [Laughter.]

Mr. CARLUCCI. That is how we reached a consensus, Mr. Shays. [Laughter.]

Mr. VOLCKER. I wish other agencies worked that way. [Laughter.]

Mr. CARLUCCI. Well, I agree that getting fast track is important, although it is a toss-up, in my mind, between that and the compensation issue and personnel flexibility.

Mr. SHAYS. OK. I really should have had it done like the Supreme Court and had the chairman answer last.

Ms. Shalala.

Ms. SHALALA. Congressman, I would basically say the same thing. I would say the same thing. Giving the Secretaries authority

to modify their compensation systems would be important because the agencies are so complex. With proper oversight, they need some of that authority at the same time.

I would also, in answer to your other question about what is the worst, we left out the least important things. In fact, part of the debate on our Commission was to reduce this to just the most important recommendations.

Mr. SHAYS. Well, that is interesting. That is interesting.

Now tell me what you think is going to be the most difficult in this to pass.

Ms. SHALALA. The fast-track authority.

Mr. CARLUCCI. Fast track.

Mr. SHAYS. OK.

Ms. SHALALA. It is going to be very difficult. We didn't spend as much time focusing on Congress. The Congress itself, if this is given, has to reorganize. Because it does no good to have a streamlined agency that meshes all of these functions if you have to go to 15 congressional committees, and they all have jurisdiction over you, because in many ways you are back where you started. So Congress itself has to have an accompanying reorganization if the government agencies are going to be reorganized, it seems to me.

Mr. SHAYS. Do you mind if we go on——

Mr. VOLCKER. You know, your feeling, obviously, is the fast track is very difficult, and I can understand that feeling. It is the most basic, I guess, of our recommendations. But, I will tell you, I wonder whether it is more difficult than some of these things that seem fairly obvious that never are done, like recommendation No. 8: "The Congress should undertake a critical examination of ethics regulations." I don't know how many commissions there have been that I have been involved in, or have not been involved in, that have been in this area over the last 10 years and nothing happens.

Mr. SHAYS. Yes, and this is in some cases a silly requirement, I think, not that we are too loose in our ethics, but that we have standards that make it very difficult. I think that is what you are saying.

For instance, I had a constituent who would have been wonderful in government. He was given a 40-page document, single-spaced practically, and he said, when he looked at this document, he said he didn't want to even apply.

Mr. VOLCKER. Exactly.

Ms. SHALALA. Mr. Shays, one of the President's appointees who eventually got confirmed had to go back and track down the babysitter she had when she was a graduate student to find out whether—because she couldn't remember whether she had paid their Social Security. Of course, she hadn't paid their Social Security. So she tracked them down to pay their Social Security. I mean it was 20 years before.

Mr. SHAYS. Yes. Mr. Chairman, do we get involved in the ethics issue? Would this come out of this committee?

Chairman TOM DAVIS. We certainly could, particularly as it pertains to civil service and the like, the revolving door, those issues.

Ms. SHALALA. Congressman Shays, the reason this is so difficult is because there aren't a lot of people in this town interested in management.

Mr. SHAYS. Right.

Ms. SHALALA. Out of the hundreds of times that I testified, maybe 10 percent were actually about management of the Department as opposed to specific issues. You chaired one of the few hearings where I testified myself. You will remember the blood issue.

Mr. SHAYS. Yes, I do.

Ms. SHALALA. And specifically about the management of that internally in the Department and how we were organized to deal with a very important safety issue, the blood safety issue. But very rarely was I called up on management questions as opposed to major policy or legislative debates.

Mr. SHAYS. Besides the importance of that hearing, the one thing I remember was, because it was important, you didn't get into the protocol issue of, being a subcommittee and you were Secretary of the Department, not coming in. I will always be grateful to you because I think that was one area where we collectively made some really excellent improvements, which is a credit to you, I might say.

Mr. Chairman, thank you. I think what this Commission has done is given Mrs. Davis and others on this committee a wonderful opportunity to do some very important work, if we choose to undertake it. I thank them, all three, and your entire Commission.

Chairman TOM DAVIS. Thank you. I think the issue—there are some people that don't like government, but if you believe in government and you believe it can accomplish things, we need to make it as efficient as we can.

I worked for one of these big A,B,C companies out there you see around the Beltway, one of these high-tech companies. I was general counsel and a senior vice president with a company called PRC. It was a billion-dollar-a-year company. I know Mr. Carlucci's——

Mr. CARLUCCI. We tried to buy it. [Laughter.]

Chairman TOM DAVIS. But everybody else did. I don't know why you didn't get it, but you got BDM and some others.

But the point is our most valuable asset wasn't our computers; it wasn't even our contract backlog. It was our people. They walked out the door every night. Replacing a good person is, as Ms. Shalala said, a very difficult thing; turnover costs in ways you can even measure. If you can get the right people, train them—training came up earlier. One of the first things that gets cut in any agency budget is training, when you have to snap your budget. You have good, solid people, knowledgeable people, but they miss training 2 or 3 years; it is costing us billions in procurement not to have the right people trained, up-to-date, and giving them the right tools.

We have a lot of potential, and I think this is a very good guideline for us to proceed with in terms of fleshing this out. But we might want to hear from you and react to some of the proposals we put down the road, and maybe sometimes a consensus dissipates when you have to come up with the particulars.

I have got a couple more questions, but I want to ask Mrs. Davis if she wants to ask any more questions first.

Mrs. DAVIS OF VIRGINIA. Thank you, Mr. Chairman. I do have one that is probably going to be a big issue, and that is pay for performance. I was just wondering how you all would suggest ap-

proaching that, how we would keep from a senior management person having something like cronyism causing them to give the raises, as opposed to the actual pay for performance. So that is one of the big concerns that I have. How do we know that it would be done fairly?

Mr. CARLUCCI. Through oversight is one. Let me make the analogy with the private sector. I, and I am sure Donna and Paul as well, have chaired compensation committees in the private sector where we have done pay for performance in a big way, set up compensations anywhere from 40 to 60 percent of a person's total compensation. It could even be higher.

But it is the board of directors that has responsibility for overseeing it and seeing that there are no abuses. In each of the agencies you have got Inspectors General; you have got hotlines, and you have got congressional committees. That ought to be sufficient oversight to ensure that the process is run with integrity.

Mr. VOLCKER. I think something we haven't emphasized here this morning is directly relevant and something that would be in the enabling legislation, so to speak. That is the role of the oversight agencies within the Federal Government, particularly the Office of Personnel Management.

I would think, if you are going to have this kind of flexibility, there is a real trick to have the flexibility, and somebody need to be looking out for the abuses which bureaucrats are subject to, like other people. How that is done finally by the Congress, but before you get to the Congress, I think you have got to be sure that within the executive branch there is some kind of oversight, and it has got to be reasonable oversight that doesn't destroy the purpose of flexibility. It is a real problem for any organization, particularly if you don't have the bottom line of the income statement to discipline it.

Ms. SHALALA. If the senior people who ultimately are responsible for signing off on those pay increases aren't credible people, if they are people dragged in from political campaigns who don't have substantive knowledge or the skills—and part of this balance that we have achieved here in recommending that you reduce the number of political appointees is also to make sure that the senior managers in the department are credible people that have gotten there through a merit system.

I mean, I am the last one to object to a layer of political appointees, but I think the Presidents have to be careful about who they put in those positions and about their willingness to work with the senior managers of the department, and to make sure that it is a credible merit system, if you are going to put in a pay for performance.

The second point I would make is it is not so easy in some governmental functions to figure out what the performance is, particularly if the legislation is complex. I think I left government after 8 years deciding that as much of the problem was flawed legislation as it was the management tools that we had. So sorting that out, and that is why one needs a combination of bonus systems, rewarding group efforts, and other kinds of tools, but managers need lots of different kinds of tools, not simply the pay-for-performance kinds of things.

Mr. VOLCKER. I probably am not characteristic of most people who have been in government. I have my own idiosyncracies. But we have got a lot of oversight in the Federal Reserve in the sense that people like to haul us up and testify about monetary policy and where interest rates are going and where the economy is going. The Federal Reserve is not subject to many of the ordinary civil service requirements, but I would have been delighted to have more strict—just straightforward, say once a year, oversight of the administration of the Federal Reserve because I always looked at it as kind of an ally of mine in trying to maintain some discipline in the organization, which I think is pretty good.

But, you know, it is a great protection against some of the excesses. You can't pay a salary that is going to look odd on the proverbial front page of the New York Times if you think you are going to get some oversight which may reveal that. So I think this is kind of inherent in our recommendation to have congressional committees that corresponded with kind of super-departments that we are proposing, so that it is clear where the administrative oversight lies.

Mrs. DAVIS OF VIRGINIA. Mr. Chairman, I thank you, and I look forward to our subcommittee having many more hearings on some of these issues. Hopefully, you all will be there to help us out. Thank you, Mr. Chairman.

Chairman TOM DAVIS. Thank you.

One of the issues that was brought up today that is kind of counterintuitive is the fact that political appointees many times don't really help the process. Bringing the career civil servants in is more productive. It is something I think we want to look at a little bit more. Every administration needs a place to put their people when you come in and you get all these resumes coming, but if the average service is 2 years, if in fact many of these people don't have expertise in the areas they are, and if they underutilizing civil servants, frankly, the taxpayers are the losers on something like that.

So that was an insight that we are seeing—yes?

Mr. VOLCKER. It is counterintuitive, I think, to new administrations certainly, but I have seen enough of these. They come in, Democrats and Republicans, they are both alike; they are very suspicious of what has been there before. They want to change it. They want to think they are going to change it. They want to put in a lot of political appointments. That is the way they think they are going to do it.

I have seen these same administrations leave, at least in the departments that I have been involved with, and they have more respect for the civil service than when they came in; they wish that they had more time to improve the civil service and work with them. It is quite a different attitude.

But we have had this ratcheting-up with virtually every administration of more and more political people, who often have more of an agenda of their own, and they think they have a political constituency, than the civil servant does.

Mr. CARLUCCI. If I can comment, this is a never-ending battle between the agency head and the White House. I have served, as I mentioned in my testimony, in seven agencies. The first thing I

have done in each of those agencies is grab somebody who is politically connected, make them my person in the agency to fight off the White House and make sure I didn't have to take all their political axe.

Chairman TOM DAVIS. Right, and the fact is you go through a campaign, then you get all these people who have given up a year or two of their lives, and they expect a job out of it. I mean that is human nature. Democrats, Republicans, all of us in the business know how it works. I guess you suffer through some of that in politics. That is what it is about.

Mr. CARLUCCI. It is inevitable.

Chairman TOM DAVIS. But the fact is, if you are keeping the civil servants who have done this for their career, out of college and their training, and they are out of the room, what an underutilization. You just wonder what happens.

But I think that was important. I think that is an important recommendation in terms of giving us a perspective because there is always, particularly on our side of the table, there is always this perspective that you have this bureaucracy of people who have their own agendas, and as the political people come in, we are the ones trying to drive it. It is interesting to hear from people who have served in administrations of both parties that it really is not the way it works.

So I can't thank you enough for putting this together. The last thing I want to do, and I think the members who are here today want to do, is let this die in the dust. I don't know if we will be able to get it all done, but there are some pieces that we are going to give it a shot.

I have talked with Susan Collins over on the Senate side about this, too, and they are excited. George Voinovich is excited about doing some of this.

So let's see where it goes, and we may call you back as we try to put pen to paper. As I said, the devil is in the details. We have got to make sure that there are friends in both parties who have an interest in this, and some of them who are excited can try to draft something that we could actually move through.

Mr. Shays. Oh, I'm sorry, Mr. Davis, would you like another round of questions?

Mr. DAVIS OF ILLINOIS. Thank you. Thank you very much, Mr. Chairman.

You know, listening to Mr. Carlucci, I was just thinking that "hip hop" isn't new. Fight off the writeoffs—I kind of like that. I thought that was a great comment. [Laughter.]

Mr. Volcker, let me ask you, in your testimony you suggest that any reorganization proposals sent to Congress from the President should really be given a straight up-or-down vote within a specified period of time.

Mr. VOLCKER. Right.

Mr. DAVIS OF ILLINOIS. Why do you make that assertion?

Mr. VOLCKER. Pardon me? Why?

Mr. DAVIS OF ILLINOIS. Why do you suggest that it should be a specified period of time? Are you suggesting that committees may bottle it up or the process may hamper it?

Mr. VOLCKER. Well, you know, that recommendation reflects, I guess, experience. You are dealing with inevitably very sensitive political constituency problems that have been turf problems between agencies. It is not unlike in many ways the problems that you ran into with the base closings or with the trade negotiations. Experience says that, if you want to get something done in some of these areas, it will be nitpicked or debated to death unless there is something that forces a vote on the whole package. This is a way of achieving it, and it has got precedence in the reorganization area.

I guess all of us strongly felt that action would not be forthcoming with any kind of assurance unless you had that kind of a mechanism to trigger the action. Now I think that only is possible, I suspect, as the chairman was suggesting, if the enabling legislation itself deals with guidelines for some of the issues that are bound to be controversial. So you deal with those issues without any time limit for the enabling legislation.

But then once the labor, once the contracting out, once the oversight provisions are at least suggested in general terms, and there is a consensus on that, then the other legislation, where you are still going to have the turf issues and some other issues, can proceed expeditiously.

Now I also think we put a lot of emphasis on calling forth the administration to work with the Congress, work with you or the relevant committee in particular areas, and work with outside groups when they make their proposal. So that, presumably, when it comes to you, it is pretty well vetted. At least that is the hope.

Mr. DAVIS OF ILLINOIS. Thank you. We have talked a great deal about the inability of top-level people to exercise judgment and expertise that they have developed over the years. One of the concerns that I have is the whole business of diversity at that level. So how do we make sure that we have a diverse pool of individuals who are going to make it to the SES levels? Could someone comment on that?

Ms. SHALALA. Well, Congressman, I have worked on that issue over the years. The way you do it is to hold managers accountable. If diversity is an element that we believe is the only way in which you can have a government of great excellence, and you need it at the upper levels, then the processes for getting promoted have to be fair, but leaders and managers have to feel responsible for developing a diverse work force at all levels of government. Congress has to hold people responsible and look at the processes, and people have to come up here and explain what they are doing or what they are not doing and why they are not doing it. But congressional oversight is key on that particular issue.

Mr. DAVIS OF ILLINOIS. There has to be great oversight at all levels, from entry all the way up the ladder, to make sure that there is fairness and an equitable way of treating people and situations, so that they do have the opportunity to get there.

Ms. SHALALA. Absolutely.

Mr. DAVIS OF ILLINOIS. Thank you.

Chairman TOM DAVIS. Will the gentleman yield?

Mr. DAVIS OF ILLINOIS. Yes.

Chairman TOM DAVIS. Let me just make a comment. One of the recommendations here is that in your SES you split it up into a technical side and a managerial side.

Ms. SHALALA. Right.

Chairman TOM DAVIS. You find so often that your best technical people aren't your best managers. I don't have any evidence for this, but my instinct is that that also opens up a path for people who may not have had the educational background but are great managers, that may not have the technical expertise, or whatever, on this side.

But I will be happy, let me say to my friend, as we work through some kind of fast-track legislation on this, to work with him to try to assure we can get some language that would be acceptable to you, and it will benefit the Federal work force, because there is just a lot of talent out there of people from all races and ethnic groups that just don't go into government.

That is the bottom line. There are a lot of qualified people out there. We just don't get them in government. A lot of them are minorities. We just need to go out and find them and incentivize them, and have a government that they can be proud of. I think some of these recommendations are trying to change what it means to serve in government.

Mr. VOLCKER. I am involved in a private organization that is concerned about diversity. Their whole raison d'etre is diversity in the business world, but they start from the simple presumption that I think is even truer in government: that given the diversity in the United States and our population, you are not going to have effective government without recognizing that if you don't have diversity in government, you are not going to have a very responsive citizenship.

Chairman TOM DAVIS. Absolutely.

Mr. VOLCKER. And how you convert that into language and proper oversight, or whatever, I don't know, but I think that is a reality.

Chairman TOM DAVIS. I remember when I was the head of the government in Fairfax and we started hiring Spanish-speaking police officers and they topped our quotas. Well, you know, 15 percent of our population was hispanic. When you go into a neighborhood, you want somebody who can speak the language. The same with firefighters and the like.

There are appropriate roles on this, and we could disagree over the degree and how you do it, but there is a recognition that we can improve on what we are doing. The bottom line is we don't have enough people wanting to go into government and stay in the government, and there is a huge talent pool out there. If we can get them in, we can run it more effectively. The taxpayers are the winner.

You have given us a little road map here, and I appreciate it very much. I appreciate all your comments and being so patient, staying with us through these very important votes we had to go over. Well, at least one of them was an important vote.

Mr. VOLCKER. I am sure I can speak for all the members of the Commission, that we really appreciate your initiative in having this hearing and the interest you have shown.

I am not sure the Commission still exists. We are rather an informal body. We issued a report. I think most members thought they had discharged their responsibility.

Chairman TOM DAVIS. It is a powerful list of names.

Mr. VOLCKER. Maybe we can corral some of them together and do a little more work.

Chairman TOM DAVIS. Well, thanks. I hope that we have laid some groundwork today for reform and identifying some of the issues we can improve on in this Congress.

Again, thank you, Mr. Volcker, Mr. Carlucci, Ms. Shalala, for your time, being here today.

I want to thank our staff for organizing this hearing. I think it has been productive.

The working papers of this will be put into the record, and, again, any other statements Members wanted to make. If there are any supplements that you think of that you would like to send in, we will make them part of the record.

The meeting is adjourned. Thank you.

[Whereupon, at 12:37 p.m., the committee was adjourned, to reconvene at the call of the Chair.]

[The prepared statements of Hon. Christopher Shays, Hon. Dan Burton, Hon. Carolyn B. Maloney, Hon. Diane E. Watson, and Hon. Wm. Lacy Clay follow:]

Record

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Statement of Rep. Christopher Shays
March 6, 2003

Today we being what I suspect will be a prolonged discussion of civil service reform proposals centered on the need restore confidence in public employees and give them the tools they need to succeed.

In terms of the long impact on government operations, almost nothing else this Committee does so fully meets our mandate from the House to oversee the overall economy and efficiency of federal departments and programs.

I commend Chairman Davis and Ranking Member Waxman for focusing the Committee on these critical issues.

Emerging threats to our national security and our fiscal stability require reform of how the federal government conducts the vital business of the American people. Rigid 19th century personnel systems cannot empower employees to succeed in meeting the changing, fast-paced challenges of the new millennium.

New, more flexible approaches must be crafted and tested to improve the federal workplace.

Long festering suspicion on both sides of the labor-management table need to be replaced by mutual respect and cooperation. Public disdain for the noble work of public servants needs to be dispelled.

The work of the Volcker Commission provides a solid, fact-based, non-partisan basis upon which to build a new consensus on the value of public service. Our witnesses today bring incomparable experience and invaluable insights to our discussion.

Statement of Congressman Dan Burton
Government Reform Committee Hearing
March 5, 2003

"From Reorganization to Retirement: Bringing the Federal Government Into the 21st Century"

- Thank you, Mr. Chairman. I would like to congratulate you on your first meeting as Chairman of the Committee.

- I also want to congratulate our new Vice Chairman, Chris Shays.

- We also have a number of freshmen who are joining the Committee for the first time. Welcome. I'm looking forward to working with you. I think you're going to enjoy this Committee because you get a chance to get involved in a lot of different issues.

Freshman -- *Candice Miller of Michigan*
Tim Murphy of Pennsylvania
Michael Turner of Ohio
John Carter of Texas
Bill Janklow of South Dakota
Marsha Blackburn of Tennessee

- This Committee is fortunate to have a line-up of dedicated and hard-working subcommittee chairs and I also look forward to working with them to help tackle the Committee's ambitious agenda.

Subcommittee Chairs: *Chris Shays of Connecticut*
Mark Souder, a fellow Hoosier
Doug Ose of California
Jo Ann Davis of Virginia
Todd Platts of Pennsylvania
Adam Putnam of Florida

- I commend Chairman Davis on holding today's hearing. I know that improving the operations of the Federal government is an issue that is of great interest to him and it is also an issue of great importance to the country.

- To better prepare for the 21st Century, the Federal government needs to find new and better ways of doing business. This means having a Federal government that is capable of serving the American people in the 21st Century. Toward that end, we need to find new, but proven, organizational, leadership, and operational frameworks that are different from what is currently in place.

- We need to shatter the "business as usual" mentality that often times stifles innovation in the Federal government. For too long, the Federal government has operated on autopilot and it's time to change the course of how we do business.

- Again, I want to commend Chairman Davis for holding this hearing. I hope it is the first of many on this topic.

- I welcome our witnesses for today. I look forward to hearing your testimony and recommendations for how we can improve the operations of the Federal government. As members of Congress, particularly as members of this Committee, we have a duty to the American people to ensure that the Federal bureaucracy is efficient, professional, and held accountable for its actions.

- Thank you, Mr. Chairman.

Record

STATEMENT OF CONGRESSWOMAN CAROLYN B. MALONEY

Committee on Government Reform
Full Committee Hearing

**"From Reorganization to Recruitment:
Bringing the Federal Government Into the 21st Century"**

March 6, 2003

Thank you Mr. Chairman and Ranking Member Waxman.

I wish to add my warm welcome to our distinguished panelists. I would like to acknowledge a fellow New Yorker who served on the Volcker Commission, Dick Ravitch, former chair of the New York Metropolitan Transportation Authority.

The National Commission on the Public Service issued a report entitled: "Urgent Business for America: Revitalizing the Federal Government for the 21st Century." The Volcker Commission tackled a very difficult topic, and as we are all too aware, found that the answers are not necessarily easy.

What we do know, is that the Federal workforce is made up almost two million dedicated and talented men and women.

In New York alone, there are nearly 30,000 Federal civilian employees in Manhattan and 14,000 in Queens County. Whatever we do, we need to maintain the quality of excellence currently displayed everyday by loyal public servants. In our effort to reform, we should not weaken civil service protections.

The Federal Government is often called a model employer. It is my firm hope that the legislative changes undertaken by this Congress will strengthen our system and not undermine the rights of workers.

I look forward to the testimony today.

Record

Statement of
Elijah E. Cummings
Government Reform

"From Reorganization to Recruitment: Bringing the Federal Government Into the 21st Century"

March 6, 2003

Thank you, Mr. Chairman and congratulations on becoming chairman of this committee. I look forward to working with you, Ranking Member Waxman, and Representatives Danny Davis, and JoAnn Davis on improving the federal civil service.

The focus of today's hearing: "Revitalizing the Federal Government for the 21st Century," is vitally important. As you may know, I have a number of federal employees in my district, including the headquarters for the Social Security Administration's headquarters. Any legislation that emerges from this and future hearings will affect my constituency. I hope that we will be judicious and thoughtful in our approach to reforming the federal government.

The report the Volcker Commission issued earlier this year gives an

overview of the major organization and management problems facing the government and provides 14 recommendations on how to remedy them.

The recommendations range from limiting the number of political appointees to establishing new personnel management principles. The report is a good starting point for a broad discussion on reforming the government. However, I hope that the Commissioners here today will provide more detail on how these recommendations can be implemented and their impact on the federal workforce.

The federal government faces many challenges: recruiting and retaining a talented and technologically proficient workforce; pay compression; agency budget cuts; lack of training dollars; and encouraging agencies to use existing personnel flexibilities.

We must do all that we can do to improve the efficiency of the federal government and empower federal employees. Federal employees are

on the front line and the better they feel about what they do, the better they serve the taxpayers.

I look forward to hearing from our witnesses and look forward to working with all of you in the future.

Thank you.

Record

Thank you for coming to testify before our committee. Often in our public debates about the policies we want our nation to pursue, we speak of "government" doing this, "government" doing that. We speak of "big government" and "government efficiency."

But we often forget that our government is made up of people—people who have often chosen a career in government because they have chosen to forgo more lucrative careers to serve their country.

Over the last few decades, we have fallen behind in our efforts to make sure we can recruit and retain

the best and the brightest for government service. Unless we revamp our system for hiring, training, and rewarding public servants, the most brilliant policy ideas will be for naught. They will fall victim to a government that lacks the ability to implement them effectively.

I look forward to hearing your ideas for the modernization of our civil service system. I would also like to thank Chairman Davis for holding this hearing and demonstrating his concern about this issue, and I hope this can be the start of a revolutionary effort to bring our civil service into the new century.

[redacted]

From: [redacted]
Sent: Monday, March 10, 2003 6:40 PM
To: [redacted]
Subject: Please add Mr. Clay's Opening Statement 3-6-03 or the record

Statement of the
Honorable William Lacy Clay
Before the
Government Reform Committee
Thursday, March 6, 2003

"From Reorganization to Recruitment: Bringing the federal Government into the 21st Century"

Mr. Chairman. Someone once said that, "If anything needs to be reformed, then it's certainly government." That simple statement seems to set the stage for today's hearing. Like my colleagues, I would like to welcome our distinguished guests. All of you have served your country in an exemplary fashion. I would also like to offer our thanks to all of the members of the National Commission on Public Service for their time and effort in making the reforming of government a top priority.

The commission's findings present an unique opportunity for a wake-up call for further discourse on bringing the federal government into the 21st Century." It is my hope that this hearing will provide the catalyst for future discussion and legislative action that will make their recommendations meaningful.

Fourteen recommendations, three categories – seems simple when you think about it. Like life, we should view the evolution of an effective federal

government as a work in progress, not an all time done deal. It is inconceivable that in the 21st century the federal government's civil service system is ineffective and costly. I am sure that our constituents expect us to address this challenge with the same type of veracity used when we represent them here in the halls of Congress.

Finally, government must not become less effective in its workforce but rather proactive in utilizing and maximizing its talent. Again, I look forward to their testimony and guidance on this critically important topic. Mr. Chairman, I ask unanimous consent to submit my statement into the record.

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